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Article

***135** Appropriating Innovation: The Enforceability of University Intellectual
Property Policies

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Universities appropriate intellectual property revenues by enacting policies which displace the common law principle of employee/faculty ownership of inventions with a regime in which the university becomes, if not the owner or co-owner of those inventions, then at least a beneficiary of any commercial revenue. In addition to revenue sharing, these policies impose ongoing disclosure obligations. The relationship thus created is in the nature of a joint venture.

The enforceability of these policies is a function of the presence and quality of consent of the inventor. That consent can be express or, in certain circumstances, implied. The appropriatory nature of the policies, combined with the considerable discretion which they permit to universities in commercializing inventions, should import fairly broad fiduciary duties and a duty of good faith, or (arguably) duties not to act arbitrarily or capriciously. Courts have been reluctant, however, to impose these duties on universities or, when they do, to give them wide scope.

***136 1. INTRODUCTION**

Canadian universities have over the last decade come to recognize that the commercialization of knowledge within their control can be an important source of funding. A 2001 survey by Statistics Canada indicates that two thirds of Canadian universities were then actively engaged in managing intellectual property developed by faculty and students. [FN1] In that same year (the last for which Statistics Canada data is available), Canadian universities held 1,994 patents. [FN2] Licences on these patents generated revenues of \$44.3 million in 2001--up 135% from \$18.9 million in 1999. [FN3] In 2002, American and Canadian universities together earned over \$1 billion (U.S.) in royalties. [FN4] The Association of Universities and Colleges in Canada has stated that its members could triple their commercialization of university-based research by 2010, with appropriate support from the government and private sectors. [FN5] Commercialization revenues clearly represent an important and growing source of university funding. [FN6] From a public policy point of view, universities are to be congratulated for finding alternative sources of revenue in circumstances in which state funding is increasingly constrained.

However laudable the commercialization of the university research may be from the point of view of public policy, the critical fact is that an invention made by a faculty member or university employee is, as a matter of common law, ordinarily the property of the inventor, not the university. Universities have, therefore, adopted intellectual property policies intended to capture the commercial value of inventions made ***137** by their faculty and staff. These policies attempt to displace the common law principle that employee/inventors own their own inventions with a regime in which the university becomes, if not the owner or co-owner of those inventions, then at least their first optionee and, in any case, a beneficiary of any commercial revenue. [FN7] It follows that university intellectual property policies are properly characterized as being appropriatory in nature. They take what is Peter's and render it unto Paul. [FN8]

It is axiomatic that a private individual cannot be deprived of his or her property, with or without compensation, absent either specific statutory authority or the owner's consent. Universities do not often have specific statutory authority to appropriate property. [FN9] It follows that the appropriation of any invention must rest on the employee/inventor's consent. The central question with which universities (as well as licensees and courts) must be concerned is the presence and quality of that consent. The central question with which employee/inventors must be concerned is that they receive, in exchange for the appropriation of their intellectual property, all of the rights and compensation to which they are entitled under the policy.

This paper considers the consent issues posed by university intellectual property policies, as well as the doctrines which are or can be invoked to protect the interests of employees/inventors and, in particular, *138 fiduciary duties and duties of good faith. That consideration is undertaken in the context of a generalized review of the content of intellectual property policies and their enforceability as contractual documents in common law. Given that there is little Canadian case law, [FN10] American decisions are relied on for guidance. [FN11] The paper does not address the enforceability of intellectual property policies in Quebec.

Intellectual property policies employed by Canadian universities may be a constituent part of a collective agreement between the relevant faculty association and the institution (as is the intellectual property *139 policy of Queen's University). The enforceability of an intellectual property policy contained in a collective agreement can be taken as given. The collective agreement governs. The common law, as it applies to individual employment contracts, is no longer relevant. Insofar as the relationship between collective agreements and intellectual property policies is concerned, the primary questions will be, first, whether the individual concerned falls within the ambit of the collective agreement and, second, whether the collective agreement addresses the intellectual property in issue. Where there is no collective agreement, or it is inapplicable to the person or intellectual property in issue, then the rights of the individual faculty or staff member will be determined upon the basis of his or her contract of employment and the relevant common law principles. While this paper addresses consent issues in the context of individual contracts of employment and the relevant common law principles, many of the principles discussed are applicable to the analysis of an intellectual property policy contained in a collective agreement.

2. THE CONTENT OF INTELLECTUAL PROPERTY POLICIES

There is no "standard form" intellectual property policy utilized by Canadian universities. Each is sui generis. Typologies exist, but rely on broad categories, the parameters of which are unclear. [FN12] What is clear is that most intellectual property policies address four basic issues - disclosure, ownership, commercialization, and revenue sharing. Disclosure is the obligation of the inventor or inventors to disclose the invention to the university. Ownership, in the simplest sense, is "title" to the invention but, on a more sophisticated view, is really a question of who (as between the inventor and the university) is able to exercise the individual rights that make up the bundle of rights that lawyers call ownership. Commercialization is the process of extracting revenue from *140 the invention; as we shall see different commercialization schemes can, in certain circumstances, result in different benefits for one party as compared to another. Revenues are the monetary proceeds of commercialization; while they normally accrue to the owner, most intellectual property policies contemplate a sharing as between the university and the inventor, regardless of who the owner is. Each of these issues is reviewed in turn.

(a) Disclosure

Disclosure is the sine qua non of intellectual property policies. Faculty and staff are typically required to disclose protectable intellectual property forthwith upon discovery by filing a notice and description with the university authority

designated by the policy. That notice may or may not require an assessment of the commercial value of the invention. Whether or not required to be included as part of the disclosure, such an assessment is often conducted, particularly in "high yield" fields such as biotechnology and electrical engineering.

Because disclosure to third parties can jeopardize the patentability of a given invention, many policies combine a requirement of prompt disclosure to university authorities with an injunction on publication or any other form of dissemination of the inventive concept for a defined period. The disclosure requirement set out in the intellectual property policy of McMaster University is illustrative. Clause 7 of the policy provides:

7.1 A disclosure to the University of the creation or discovery of any new Intellectual Property shall be made to the Director in the form established by the IP Board from time-to-time (hereinafter the "Disclosure Form"). The Director shall provide reasonable assistance to the IP Creator in the completion of the Disclosure Form.

7.2 A copy of the Disclosure Form shall be sent by the Director to the appropriate Departmental Chair.

7.3 The Disclosure Form shall contain sufficient information to describe the new Intellectual Property and to permit an assessment thereof.

7.4 In some cases, an IP Creator may wish to provide limited disclosure of the creation or discovery of any new Intellectual Property to third parties. Such disclosure shall be permitted only if the IP creator has arranged for third parties receiving such information to have signed a nondisclosure agreement in form and substance satisfactory to the Director.

The prohibition on public disclosure has, at least historically, been the subject of some controversy in academic circles. Some faculty believe *141 that a restraint on publication (even if only temporary) is inimical to the academic mission of the discovery and unfettered dissemination of knowledge. [FN13] This objection rests on a misunderstanding of the nature of a patent, and in particular the bargain between the state and the inventor which lies at the heart of a patent. That bargain compels the inventor to provide disclosure sufficiently complete and accurate as to permit a workman, skilled in the art, to construct or use the invention, in exchange for which the inventor receives a twenty year monopoly on its exploitation. [FN14] A patent therefore contains, by definition, full and complete disclosure of the invention. The objection, if any objection is to be made, is not to the fact that patenting precludes the dissemination of knowledge, but rather to the fact that it makes commercial use of the knowledge proprietary.

A failure by a person subject to an enforceable intellectual property policy to make timely disclosure according to the requirements of the policy, or the making of a misrepresentation in respect of the importance or commercial viability of an invention, is an actionable wrong in respect of which a university may sue. In *Fenn v. Yale University*, [FN15] Dr. Fenn (an expert in mass spectrometry and winner of the Nobel prize in Chemistry in 2002) had, prior to June 1988, invented a method for determining the molecular weight of particles through the use of multiplied charged ions. Fenn knew the invention to be commercially valuable. He did not however file an invention disclosure with Yale's Office of Cooperative Research until April 6, 1989 and, in that disclosure, only generally and briefly summarized the invention. When specifically asked whether the invention had any potential commercial value, Fenn indicated that it did not. Yale placed great importance in Fenn's opinion in this regard, and as a result, did not file a patent application before the statutory deadline of June 1, 1989. Fenn, however, had filed a patent application, in his own name, on May 19, 1989. Yale subsequently discovered the Fenn *142 patent. Fenn refused to assign the invention to Yale and Yale commenced an action.

The United States District Court for the District of Connecticut held that Dr. Fenn had breached the applicable patent policy by failing to promptly disclose the invention and by misrepresenting its importance. The Court concluded, as well, that there was a "special relationship of trust and confidence" between Yale and Fenn. Yale supported Fenn's research in the form of facilities, funding and staff and entrusted him with the proper management of related grants in the expectation that he would use his knowledge, skill and expertise to act in good faith and with complete candour and loyalty to the University. On that basis, the Court concluded that Fenn owed Yale the duties of a fiduciary, including the duty to

make full disclosure and to maintain an undivided loyalty. Fenn had breached that duty when he failed to properly disclose the invention to Yale. Indeed, so egregious was Fenn's conduct that the Court was driven to conclude that his misrepresentations and omissions constituted fraudulent misrepresentation and fraudulent nondisclosure.

(b) Ownership

The general common law principle in respect of ownership of inventions by employees was laid down in *Bloxam v. Elsee*, [FN16] where it was held that an invention by an employee is the property of the employee. However, if the employer employs a skilled person for the express purpose of inventing, the invention made by him belongs to the master, who is free to obtain a patent thereon. This principle has been received in both Canada and the United States, as demonstrated by the decision of the Federal Court of Canada in *Comstock Canada v. Electec Ltd.* [FN17] and the Supreme Court of the United States in *United States v. Dubilier Condenser Corp.* [FN18]

In *Comstock*, an employee, Hyde, alleged that he was the inventor of the subject matter of the patent in issue. At the relevant time, Hyde was employed by *Comstock* as the manager of its electrical department. *Comstock* alleged that one *Dodds*, not Hyde, was the inventor but that, in any event, it was the owner of any invention that Hyde made in the course of his employment, in that he was in a fiduciary relationship with *143 *Comstock*. *Muldoon J.* decided that Hyde was the inventor of the subject matter, the patent. In the course of his reasons, *Muldoon J.* (in the style for which he is remembered) equated *Comstock's* position to that of a "slaver":

[*Comstock* seeks] to appropriate Hyde's work without paying any compensation. True enough, Hyde was not kept detained in bondage. He did not then know of the employer's intent to appropriate his work. Had he known, he most probably would have left his employer, as he was free to do. It is no less an unremunerated appropriation of Hyde's work just for the fact that it was attempted after his departure. What *Comstock* would accomplish if it were to deprive Hyde of his work and his property and his invention without agreed upon remuneration, would be the essence of slavery. Only the ancillary bondage would be missing, including the minions or instruments of intimidation for bondage and detention. Slavery, in effect, without overhead. That cannot be permitted. [FN19]

Comstock stands for the proposition that the mere existence of an employer/employee relationship did not, in itself, deprive the employee of the ownership of an invention made during his employment, notwithstanding that the subject matter of the invention may be of use to the employer. This is so even though the employee may have made use of the employer's time, co-employees, and materials bringing his invention to completion. [FN20]

In *Dubilier*, two employees of the United States government employed as laboratory researchers in the airplane radio group of the United States Department of Commerce, invented three products relating to broadcast reception and power amplification in loudspeakers. They had pursued their research voluntarily, rather than under direction of their supervisors, and had used department resources and facilities. The United States Supreme Court held:

One employed to make an invention, who succeeds, during his term of service, in accomplishing that task, is bound to assign to his employer any patent obtained. The reason is that he has only produced that which he was employed to invent. His invention is the precise subject of the contract of employment. A term of the agreement necessarily is what he is paid to *144 produce belongs to his paymaster On the other hand, if the employment is general, albeit it cover a field of labour of effort in the performance of which the employee conceived the invention for which he obtained a patent, the contract is not so broadly construed as to require an assignment of the patent. [FN21]

The principle that an employee/inventor is the owner of any invention made in the course of his employment is subject to the "employed to invent" exception, as well as an exception for express contracts to the contrary, both of which exceptions are recognized in *Comstock* and *Dubilier*. [FN22] To the second, the American courts have arguably added a gloss-

-consent by conduct or acquiescence, so as to imply a contract to the contrary.

(i) Employed to Invent

In terms of the "employed to invent" exception, Comstock holds that whether an employee is employed to invent falls to be determined on a number of considerations as to the nature and context of the employer/employee relationship, such as:

- (a) whether the employee was hired for the express purpose of inventing;
- (b) whether the employee at the time hired had previously made inventions;
- (c) whether an employer had incentive plans encouraging product development;

(d) whether the conduct of the employee once the invention had been created suggested that ownership was held by the employer;

(e) whether the invention was the product of the problem the employee was instructed to solve, i.e. whether it was a duty to make inventions;

(f) whether the employee's invention arose following his consultation through normal channels (i.e. was help sought?);

(g) whether the employee was dealing with highly confidential information or confidential work;

***145** (h) Whether it was a term of the servant's employment that he could not use the ideas which he developed to his own advantage. [FN23]

The "employed to invent" rule has been invoked by Canadian courts from time to time, though not in the context of universities. In *Seanix Technology Inc. v. Ircha*, [FN24] the plaintiff employer applied for summary judgment on its claim for a declaration that it was the rightful owner of an invention made by Ircha during the course of his employment. Ircha had been employed as a mechanical engineer and designer whose job description included the design of computer cases. The invention in respect of which Ircha claimed rights was a computer case. While Ircha had performed much of his design work at home, after work hours, the Court held the invention fell within the scope of his duties as an employee. It was a "normal incident" of his employment and it was, as the Court concluded "exactly what he had been hired to do". [FN25]

The operative term is "exactly". The general rule is that the invention of something other than that which the employee was hired to invent falls outside the scope of the "hired to invent" exception. Thus the ownership of an invention relating to the use of alternating current for broadcast receiving sets by persons hired to develop a remote control system for airplane bombs accrues to the inventor, not the employer. [FN26] Conversely, if the employee invents something which he was hired to invent but in a way other than that which he was instructed, the invention belongs to the employer. [FN27] Courts appear more willing to find that the inventor falls within the "hired to invent" exception where the employee inventor is a fiduciary of the employer. [FN28]

***146** American courts have on at least one occasion held that faculty members fall within the "employed to invent" exception. In *Speck v. Northern Carolina Dairy Foundation Inc.*, [FN29] the Plaintiffs had brought an action seeking to impose a constructive trust upon royalties received by the Defendant university and its assignee for licensing of the use of a secret process discovered by the Plaintiffs during the course of their work as faculty members at North Carolina State University. The Court observed:

In the instant case, the plaintiffs' pleadings revealed that they developed the secret process for the improved methods of preparation and preservation of concentrates of *Lactobacillus acidophilus* while employed as teachers and researchers to engage inter alia in such research and development for the University. At all times pertinent, the plaintiffs' salaries were paid by the University. Additionally, the plaintiffs candidly acknowledged during oral argument that the University was the place where they discovered the secret process and that the resources provided them for their research by the University enabled them to discover the process. Under these facts, the secret process developed through the research of

the plaintiffs belonged to the University absent a written contract by the University to assign.

Regrettably, the plaintiffs in the instant case were not employed pursuant to a written contract detailing their duties as professors and researchers. It is clear, however, that the plaintiffs were permitted and encouraged by their employer the University to conduct the precise research which led to the discovery and perfection of the secret process. It is equally clear that the plaintiffs performed this work on their employer's time and using their employer's research resources and that they were paid a salary to do so. As it has been clearly stated:

***147** It matters not in what capacity the employee may originally have been hired, if he be set to experimenting with a view to making an invention, and accepts pay for such work, it is his duty to disclose to his employer what he discovers in making the experiments, and what he accomplishes by the experiments belongs to the employer ([Houghton v. United States, 23 F.2d. 386 at 390 \(4th Cir., 1928\)](#)). [FN30]

The decision in *Speck* has been criticized as a misinterpretation of *Dubilier*. The conclusion reached by the Court is clearly contrary to the accepted principles articulated in that case. While *Speck's* research may have been "permitted and encouraged" it was not directed or controlled by the university. His employment was general, as a teacher and researcher. As one commentator has noted:

The Court's misunderstanding of the applicable legal principles is highlighted in its statement, "Under these facts, the secret process developed through the research of the [faculty] belongs to the University absent a written contract by the University to assign". As *Dubilier* explicitly states, legal principles dictate the opposition presumption: the process belongs to the faculty absent a written agreement by the faculty to assign. Instead of exercising judicial restraint in preempting the inventor's ownership rights, as *Dubilier* counsels, the Court here exhibited judicial hastiness. [FN31]

With one exception, [FN32] *Speck* has not been followed by American courts in subsequent cases, and would not likely be adopted by Canadian courts. University faculty and staff are ordinarily hired to teach and conduct research. While discovery and invention may result from research, the university does not instruct faculty or staff to solve specific (or any) problems. There are no incentive plans. Universities do not provide data, information, and instructions. It is submitted that, on an application of the Comstock criteria, it would be very difficult to reach the conclusion that most university faculty and staff are "employed to invent"; if they are, it is certainly not with the specificity that the rule requires.

That being said, one can imagine circumstances in the university setting that may meet the "employed to invent" criteria. The hiring of graduate students to develop specific apparatuses using specific methods may be an example, especially where the work in question is clearly ***148** directed towards commercial purposes or objectives, as opposed to "pure" research. Exceptional circumstances such as these aside, it seems unlikely that a university, under Canadian (or for that matter American) law, has any claim to the invention of a faculty or staff member under the "employed to invent" exception. Such entitlement as a university must be founded in contract.

(ii) Contracts to the Contrary

Canadian and American courts accept that the rule in favour of the inventive employee is subject to an express agreement to the contrary. Thus a term in an employment contract which vests ownership of inventions in the employer and/or requires that an employee make an assignment of such an invention, is (subject to the usual defences) valid and enforceable. [FN33] [FN34] While U.S. courts have held that assignments are to be strictly construed, they have also held that the obligation to assign may be found on language which is less than exact.

The rule of strict construction of an assignment was recently exemplified in the United States in *University of West Virginia v. VanVoorhies* [FN35] where the United States Court of Appeals for the Federal Circuit held that an obligation to assign an invention "conceived or reduced to practice" under given agreements did not necessarily extend to what the de-

findant called "second generation patents" subsequently developed. The Court therefore granted a motion relieving Van-Voorhies from an order requiring assignment of those patents and remanded the matter to trial. Strict construction of an assignment does not, however, mean that American courts demand exactness in the wording necessary to create an obligation to assign. In *Regents of University New Mexico v. Knight*, [FN36] the University's patent policy was incorporated into the written faculty contract. The policy stated that inventions "belong to" UNM. The United States Court of Appeals for the Federal District held *149 that language evinced the parties intention that UNM would own all inventions and that a reference to "signing patent applications and all necessary documents" and "executing all necessary assignment documents" were sufficiently broad to found an obligation to assign patent applications, including continuation-in-part (CIP) applications.

An employment agreement may incorporate ownership provisions or an assignment obligation by express reference. In *Singer v. Regents of the University of California*, the California Superior Court was concerned with a contract of employment that required each faculty member to execute the University's Patent Agreement, which in turn referred to the University's Patent Policy, which itself contained the operative obligation. The Court held that in order for a contract to incorporate terms by reference, the reference to the incorporated document must be clear and unequivocal and the terms to be incorporated must be known or easily available to the contracting parties. [FN37] It follows that (subject to implied contracts to assign, discussed in section 2(b)(iii) of this paper) intellectual property policies which are not incorporated by reference in clear and unequivocal terms are prima facie unenforceable. [FN38]

The enforceability of a new intellectual property policy imposed during the course of a term of employment is often argued upon the basis that the continuation of the employment relationship is adequate consideration. Courts in the United States have decided this issue both ways. In *Mirafli, Inc. v. Murphy*, [FN39] an agreement imposed during an *150 employment relationship was found to have required fresh consideration, while in *General Signal Corp. v. Primary Signal Corp. Inc.* [FN40] it was not. The weight of Canadian authority is that performance of an existing duty is not a consideration, [FN41] however, continued employment with forbearance from dismissal may be adequate. [FN42]

Where a specific policy is incorporated by reference, there is authority in the United States that the university is not free to unilaterally amend a policy to the prejudice of an inventor without the consent of the employee, unless the policy itself so permits. Thus, in *Shaw v. Regents of the University of California*, [FN43] the Court of Appeal of California affirmed a decision granting a declaratory judgment that the University had no right to alter its patent policy so as to reduce the net royalties payable to the plaintiff in circumstances where the plaintiff's written contract had referred to a specific policy establishing net royalties at fifty percent. However, a different result was reached in *Fenn v. Yale University*, previously discussed. [FN44] In that case the plaintiff conceded that he was contractually bound by a prior patent policy but disputed that he was bound by a successor policy. The Court found for the University on the basis, inter alia, that the prior policy explicitly provided that Yale could revoke or amend it at any time. The Court took the view that the plaintiff, having accepted that term, was required to abide by it and, therefore, the successor policy.

Regardless of how a term with respect to ownership of intellectual property is incorporated in an employment contract, it is submitted that the applicable interpretive principles should be those that govern employment contracts generally. As compelling as the universities' need for funding may be, the documents into which intellectual property policies are incorporated are employment contracts. Contracts of employment *151 are not ordinary commercial contracts. Canadian and U.S. courts will typically interpret employment contracts to protect employees. [FN45] The contra proferentum doctrine, which requires that ambiguity in a written contract be construed against the party that drafted it, is also often applied against employers. [FN46] Where the contract confers discretionary powers (discussed at section 2(c)(i) of this paper), courts in both countries impose obligations of good faith and fair dealing. [FN47]

There is a wide range of ownership terms which can be incorporated by reference. Almost all university intellectual property policies contain an express term with respect to ownership. The intellectual property policy of the University of Saskatchewan, for example, contains an express and unambiguous term granting ownership to the University. On appointment, each member of the academic and administrative staff must sign an individual Memorandum of Agreement with the University, the first term of which provides:

***152** The Member of Staff hereby assigns and agrees to assign to The University all rights in and to all discoveries or inventions, whether patentable or not, which may hereafter be made or conceived during the period of employment at the university and relating directly or indirectly to the scientific or scholarly work upon which the University of Saskatchewan is engaged at The University or arising out of such work.

Similarly, there are intellectual property policies that clearly and unambiguously vest ownership in faculty, as at Queen's University, where the Collective Agreement provides:

All intellectual property is owned by the Members who create it, unless some other arrangement has been agreed to in advance for certain types of funding or by individual contract.

Many intellectual property policies do not, however, address ownership directly--rather, they set up a regime of "joint rights". For example, the University of Toronto Inventions Policy provides, at Article 2.2:

When an Invention is made by an inventor not in the course of activities performed pursuant to direction given by a faculty or staff member of the University specifically with the object of making such an Invention, the University and the Inventor share equally rights to the invention, unless these rights have been ceded (in whole or in part) to a third party under a prior written agreement, duly signed by the inventor and the University.

As palatable as this may be from the point of view of university/faculty politics, the notion that these two parties "share equally rights to the invention" is, from a legal perspective, uncomfortably ambiguous. Are the rights held jointly? In common? Is this a partnership? A joint venture? Much depends on the intellectual property policy in issue.

The wide variety of ownership terms in intellectual property policies tempts a conclusion that some universities treat faculty and staff very differently than others. Were that the case, then one might expect to see a movement of researchers in such potentially "commercial" fields as biotechnology and electrical engineering into those universities offering ownership, and a corresponding movement away from universities claiming ownership. There is no evidence, however, that migration of this kind takes place. This is so because intellectual property policies tend to disaggregate the bundle of rights that lawyers call "ownership" into its constituent rights, including the right to commercialize and the right to earn revenue. The effect of this makes the issue of "ownership" per se largely irrelevant. What matters is who has the right to commercialize and how the revenue rights associated with ownership are allocated. These rights, as we shall see, are almost always shared. This ***153** sharing makes the relationship between the university and employee/inventor akin to joint venture.

(iii) Implied Contracts to Assign

In Canada, contractual obligations may be implied as the legal incidents of a particular class or kind of contract. [FN48] They may also be implied where it is necessary to do so as a matter of business efficacy in order to give the contract meaning and effect. [FN49] The test in respect of the former is whether the law itself requires that the term be implied. The test in respect of the latter is whether the term is necessary to give the contract effect and is so obvious that "it goes without saying". [FN50] In both ***154** Canada and the United States, terms may also be "implied-in-fact" in circumstances where, though not embodied in the express contract, they can be inferred from the conduct of the parties, in the circumstances, as having been tacitly agreed to. [FN51]

Canadian courts have considered whether a term requiring assignment of an invention should be implied in consulting contracts on the basis of the legal incidents and business efficacy test referenced above. In *Techform Products Ltd. v. Wolda*, [FN52] Wolda had ceased working for Techform as an employee, but continued as an independent contractor. Wolda entered into a Consulting Agreement with his former employer. That agreement did not contain an express term with respect to the ownership of inventions. The plaintiff became concerned and required that Wolda enter an "Employee Technology Agreement" ("ETA") in which he agreed to assign any inventions. Wolda signed, fearing the loss of his position if he did not. Two inventions were made - one in response to a specific assignment by Techform while Wolda was still an employee, *155 and the second as a result of Wolda's own initiative while Wolda was an independent contractor. Sachs J. found that the ETA Agreement was without consideration and therefore invalid. She found, as well, that the Consulting Agreement contained an implied term requiring Wolda to assign ownership of inventions made in response to a specific assignment by Techform, but not an implied term requiring an assignment of the invention not made in response to a specific assignment. In respect of the second invention Sachs J. considered the business efficacy test:

Applying the business efficacy test to the facts in this case I cannot conclude that the [Consulting] agreement between Mr. Wolda and Techform would not have been effective if all of the inventions made during the course of the contract were not owned by Techform. In trying to assess the intentions of the parties at the time they entered into the agreement it is not obvious that if something were invented by Mr. Wolda that was not the subject of a specific assignment to him by Techform then that invention would be the property of Techform. [FN53]

The trial decision was overturned by the Ontario Court of Appeal, which found that the continuation of employment with forbearance from dismissal was, in the circumstances of the case, adequate consideration for the ETA and that the ETA was not executed under duress. Since the ETA was enforceable and contained express terms requiring Wolda to assign his rights in any invention, Wolda was obligated to assign the second invention as well. The Court of Appeal did not consider whether the assignment was an implied term of the Consulting Agreement.

Canadian courts have not yet had occasion to consider "the implied-in-fact" doctrine in the context of intellectual property policies. However, a number of courts in the United States have. In *University Patents, Inc. v. Kligman*, [FN54] the plaintiff, a faculty member at the University of Pennsylvania, discovered that Vitamin A Acid was an effective treatment for acne. The University had adopted a patent policy requiring that any invention or discovery resulting from work carried out on University time or at University expense was the property of the University. The policy was not incorporated in any contract of employment and there was conflicting evidence whether it had ever previously been brought to Dr. Kligman's attention. The extent to which it had been circulated to University employees was unclear. Kligman discussed the possible commercialization of the invention with Johnson and Johnson. During those conversations Johnson and Johnson raised the matter of *156 the University's patent policy. Kligman then made the requisite disclosure to the University, describing his invention as "probably not patentable" and advising of his ongoing negotiations with Johnson and Johnson in respect of a licence, the proceeds of which he proposed, be paid over to the Dermatology Department. The University indicated it was content with that arrangement.

Several years later, Kligman discovered a method of using Vitamin A Acid to retard the effects of aging of skin, in respect of which he made no formal disclosure to the university and filed his own patent application, both on the basis of his view that he had developed the second invention entirely on his own time and resources. The University alleged violation of its patent policy. Kligman moved for summary judgment. The Court dismissed the motion on the basis that while there was no express contract incorporating the patent policy by reference, a jury could find that there was an implied contract to assign on the basis of the patent policy and Kligman's knowledge of and acquiescence in it. In doing so, however, the Court expressed its view that:

This is a close case, particularly in view of the manner in which the University conveyed its Patent Policy and its lax enforcement thereof. On the current record however the Court cannot conclude that no jury reasonably could find that an

implied contract to assign the patent in question was formed between Dr. Kligman and the University. There is evidence, however scant, from which one could find Dr. Kligman was aware of the Patent Policy since August 1967 and manifested an intent to be bound by it. By emphasizing that the initial discovery was on his own time and at his own expense in his letter to Mr. Dodge, Dr. Kligman may have led the University reasonably to conclude that he recognized the applicability of the Policy to any discovery achieved with the use of University resources [FN55]

In *Chou v. University of Chicago*, [FN56] the plaintiff was a graduate student and subsequently a post-doctoral research assistant. Her letter of appointment stated that the appointment was subject to "the administrative policies of the University", which included the patent policy itself. The U.S Court of Appeals for the Federal Circuit held that when Chou accepted her appointment, she accepted the obligations set out in the University's policies, including the patent policy and the obligation stated therein to assign. Moreover, she did not dispute her obligation when she assigned to the University previous inventions for which she was recognized inventor. Chou is, in a sense, an "easier" case to justify *157 than Kligman. In the former, there was a letter of appointment that contained an incorporation clause, non-specific though it was, which arguably rendered the contract express rather than implied, while in the latter there was not.

Chou was subsequently cited and relied upon in *University of West Virginia v. VanVoorhies*. [FN57] In that case the plaintiff, while a graduate assistant, had developed an invention for a contrawound torodial helical antenna with his supervisor, Smith, whose evidence was that the two then discussed the University's patent policy. A disclosure was duly submitted to the University. VanVoorhies and Smith executed a written assignment. An application was filed (the '970 application). Van-Voorhies then developed a half-wave bifilar contrawound torodial helical antenna, which he disclosed to the University and which he suggested be filed as a continuation-in-part (CIP) of the existing application. Van-Voorhies subsequently refused to execute an assignment of the second invention, and in fact went on to file his own application in respect of it. Additionally, VanVoorhies filed another application (the '609 application) directed at the second invention, which was not a CIP of the first invention. The University sued, alleging breach of obligation to assign. Van-Voorhies counterclaimed for breach of fiduciary duty, breach of contract, fraud, and invalidity of assignment. The University moved for summary judgment dismissing the counterclaims. The United States Court of Appeals for the Federal Circuit upheld the district court's grant of summary judgment. Whereas the '970 assignment expressly required Van-Voorhies to assign all CIPs of the '970 application to the University, VanVoorhies was obligated to assign the '609 application on the basis that the University's patent policy obligated the assignment, even though it was not a CIP of the '970 application. VanVoorhies was aware of the policy and had previously adhered to it by assigning the first invention. There was, on that basis, knowledge and acquiescence.

This line of U.S. authority has led one commentator to conclude that American Courts tend to recognize that a patent policy binds postdoctoral researchers and graduate students (as well, presumably, faculty and staff) without an explicit assignment agreement, whether included directly or by incorporation. [FN58] The enforceability of the given policy is, as the commentator suggested, "strengthened" where the policy language *158 is relatively clear and where there is some evidence that the inventors have knowledge of the application of the policy. Arguably, this formulation of the ratio of the Kligman/Chou/VanVoorhies line of cases understates the significance and importance of knowledge and, more importantly, acquiescence. It is very doubtful the courts in Kligman, Chou and Vanvoorhies could have arrived at the decisions they did without the evidence that each had of knowledge of the policies in issue, and evidence of positive conduct by them to comply with the requirements of those policies. In each of these cases, knowledge of the applicable policy and acquiescence in it supplied the consent, essential for creating the contractual basis for the enforcement of intellectual property policies in issue. Absent that consent the policies would have been unenforceable.

Both knowledge and acquiescence are required to support a claim in implied contract. Mere knowledge of the existence of an intellectual property policy is not evidence of acquiescence in it. In *Kaplan v. Johnson*, [FN59] a Veteran's admin-

istration hospital premised its claim to an employee's invention on a contractual acquiescence argument, relying on publication of the applicable government policy in the Federal Register and the employee's subsequent continuation of employment. The Court of Appeal for the Seventh Circuit dismissed the claim, upon the basis that, constructive, or for that matter, actual notice, was an insufficient basis upon which to claim acquiescence in the loss of an entrenched and settled property right. In *Starcevich v. Woodward's Ltd.* [FN60] and *Ellison v. Burnaby Hospital Society*, [FN61] the British Columbia Supreme Court made the same point, although in the context of a benefits policy rather than an intellectual property policy. As the Court held in *Starcevich*:

Before a "policy" can form part of a contract of employment there must be evidence that the policy was accepted by both the employer and the employee as a term of the employment contract, and the onus in this respect rests on the party seeking to rely on the term of the contract. One party cannot unilaterally impose a contractual term on another. The fact that the plaintiff was aware of the policy, and in fact applied it to others *159 during the course of his employment, did not establish that he accepted the policy as a term of his own employment contract. [FN62]

When knowledge becomes acquiescence is a matter of fact, depending on the circumstances in which the knowledge is obtained, and the conduct that follows the knowledge. Packaging a new or revised intellectual property policy in a faculty handbook for general circulation to all faculty members every few years may (or may not) result in any given member having actual knowledge of the policy, but it can hardly be said that the delivery of the handbook, without more, constitutes evidence of agreement to its contents. Conversely, a discussion of an intellectual property policy with a faculty member at the time he or she is hired may found knowledge and acquiescence. In that circumstance a failure to object may be enough. Certainly, a positive act of compliance with a known policy may be enough, as it was in the *Kligman* case and the cases that follow from it. Even here, however, caution is necessary. Compliance may be indicative of the fact that the faculty member believes that the policy simply articulates the common law, viz, that the university is, in law, the owner of inventions by faculty members. [FN63] Indeed, as one author has commented, it is not in the interests of universities that faculty members understand their common law rights of ownership. [FN64] In that event the compliance is evidence of a state of mind, not consent to a bargain. This raises a question, whether conduct taken upon the basis of a mistake of law or mixed fact and law, can found an "implied in fact" term or contract.

(c) Commercialization

Commercialization, as the process of extracting revenue from an invention, inevitably involves two steps - making the innovation proprietary and, thereafter, working or transacting the resulting proprietary right. Few universities actually work the intellectual property rights that they appropriate. [FN65] By far, the vast majority of patents (or applications *160 therefore), are sold or licensed. Indeed, many university intellectual property administrators see patent applications as "inventory" in respect of which sales are sought at the earliest opportunity. This strategy relieves the university of the financial burden of prosecution and maintenance costs, and of litigation risk. Other institutions are prepared to incur these costs in exchange (they hope) for licensing revenues in the longer term. These institutions can employ various strategies available for recouping prosecution and maintenance costs, as well as, laying off litigation risk. [FN66]

There are three primary issues in respect of commercialization--who decides whether to commercialize, who decides how to commercialize, and who pays for commercialization. Certain policies (such as those of the University of Toronto and the University of Alberta) permit the inventor to decide whether he or she wishes to commercialize or, alternatively, to offer the invention for assignment to the university, which may or may not accept. [FN67] Still other policies (such as that at McMaster University) allow the university a period of time, following the initial disclosure, during which to decide whether it wishes to commercialize the invention. If it elects not to commercialize, then the intellectual property may, at the request of the inventor, be transferred to him or her. That being said, the same policy allows an inventor who is a member of the teaching staff to request that the University transfer ownership of intellectual property and provides,

further, that university "shall not unreasonably withhold approval of the IP creator's request". Still other intellectual property policies (such as that at Queen's University) simply provide that once a disclosure is made the university has an exclusive opportunity, for a defined period of time, to make a commercialization proposal, which the inventor is free to accept or reject. Many policies provide for a regime of shared decision making in respect of commercialization issues.

Where the university assumes responsibility for commercialization of the invention, then, in the ordinary course, the costs of commercialization are borne by the university, subject to the revenue sharing requirement of the policy (more fully discussed at Section 2(d) of this *161 paper). Conversely, where the inventor is entitled to commercialize, and elects to do so, then the inventor bears those costs (again, subject to revenue sharing requirements set out in Section 6 of this paper). The manner in which an invention is commercialized can have a significant impact on the revenue available to be shared between the inventor and the university. Most intellectual property policies apportion the "net profits" produced from commercialization. The "net profits" generated by working an invention can be very different from the net profits produced from a license or sale of that same invention. The former requires that the costs of production and sale (which can be substantial) be appropriately allocated, while the second does not. Even in respect of a sale, the "net profits" produced by an absolute sale (which are typically made on a one-time, lump sum basis) can be very different from the net profits produced of a sale (to a spin-off or otherwise) for equity or debt.

The existence of joint decision-making provisions in respect of commercialization issues, continuing disclosure obligations, and revenue sharing rights creates an ongoing, interdependent relationship in the nature of a joint venture. The ongoing nature of that relationship raises an issue whether the parties have, in making any decision with respect to the intellectual property, a duty--whether fiduciary, contractual or otherwise--to take into account the other's interests and, if so, what that duty is. The case law suggests that fiduciary, contractual and (arguably) "administrative" duties may exist in appropriate circumstances. The nature of any duty, and its scope, depends in the first instance on the way that the Plaintiff frames his or her claim.

Singer v. Regents of the University of California [FN68] is instructive. In Singer, the Plaintiffs were named inventors of four different magnetic resonance imaging ("MRI") patents. Each of the Singer plaintiffs had *162 been obliged, as part of his contract, to enter a Patent Agreement incorporating the terms of the Patent Policy, pursuant to which each was entitled to a royalty of fifty percent of "net royalties and fees". The University had in turn entered a licence with Pfizer to receive a royalty of . 56% of the net selling price of all products covered by the patents. That licence agreement generated approximately \$1.5 million in revenues for the University, of which the inventors received fifty percent of the net. At the same time, the University entered a research funding arrangement with Pfizer pursuant to which the University received approximately \$20 million in research funds in the same field. The plaintiffs asserted that they had a right to share in the proceeds of the research funding agreement as well, which they alleged was part of a "package deal" and fell within "net royalties and fees" (herein the "contract claim"). They also claimed that the University had, inter alia, failed to license third parties, failed to pursue infringers, and unilaterally changed the way in which royalties were calculated (herein the "remaining claims").

The manner in which Singer had been pled created a preliminary issue whether the case should be tried by a jury as an ordinary breach of contract case (as the plaintiff wished) or whether the conduct of the University was subject only to more limited judicial ("mandamus") review (as the defendants wished). Specifically, the University argued that it was a public body with complete discretion as to the licensing of the property, that the conduct in issue was in fact decision making within that discretion, and that therefore the issue, properly framed, was whether the impugned decisions fell below the "arbitrary and capricious" standard of judicial ("mandamus ") review. The Court held that the trial would be bifurcated; the contract claim for money damages being tried by a jury in a breach of contract action, and the remaining claims tried by the court in a judicial ("mandamus") review.

The point to be taken from Singer is that the characterization of the claim goes a long way to determining the standard of review which will be applied, and by extension, the nature of the duty. In the contract action, the standard was simple breach. In the mandamus action, the standard was that the decisions in issue not be arbitrary or capricious. Tactically, the plaintiffs' interest lay in securing the broadest review and imposing the highest standard of care. The University's interest lay in narrowing the scope of review and lowering the standard of care. In the context of intellectual property policies, therefore, employees/inventors will generally seek to characterize a university's duties as contractual. Universities will characterize their duties as administrative.

***163** (i) Fiduciary Duties

A fiduciary relationship may arise where one party can, by the exercise of some discretion or power, unilaterally affect the legal or practical interests of the second party, rendering that second party peculiarly vulnerable to, or at the mercy of, the fiduciary holding that discretion. The key is dependency or vulnerability. [FN69] Fiduciary duties are imposed in a variety of circumstances, including partnerships and joint ventures, and can be superimposed on contractual duties where appropriate. [FN70] A fiduciary has a duty, inter alia, to act in the best interests of the beneficiary. The fiduciary duty is a duty to act in utmost good faith, with a heightened sense of loyalty and fidelity. Fiduciaries have a duty to discharge the obligations they owe in the best interests of the beneficiary, and a duty to account. [FN71]

A faculty member or employee may, in certain circumstances, owe fiduciary duties to the employer. This much was decided by the United States District Court for the District of Connecticut in Fenn, already discussed, where it was held that there was a "special relationship of trust and confidence" as between Yale and Fenn upon the basis that Yale had supported Fenn's research in the form of facilities, funding, and staff, and entrusted him with the proper management of related grants in the expectation that he would use his knowledge, skill, and expertise to act in good faith and with candour and loyalty to the university. Each case, however, must be determined on its own facts. In Comstock, [FN72] the employer had argued that the inventor, Hyde, owed a fiduciary duty to it upon the basis, inter alia, that he was a principal and executive officer. The Court held however that Hyde had not been employed to invent and *164 as a result, such fiduciary duties as he owed the corporation did not extend to any inventions made by him.

The more interesting question is whether there are circumstances in which the university, as employer, owes a fiduciary duty to the faculty member/inventor. In Speck, [FN73] the Plaintiff faculty member made a claim for an equitable distribution of royalties upon the basis that the defendant university owed him a fiduciary duty. Following the University's intellectual property policy, Speck had disclosed and assigned his secret process to the University in the expectation that he would be compensated. The University, thereafter, had assigned the invention to the North Carolina Dairy Foundation. The North Carolina Court of Appeal concluded that, in those circumstances, there was a genuine issue of material fact whether the defendants had a fiduciary duty. Speck's appeal was allowed and the matter remanded for trial. That decision was subsequently overturned by the North Carolina Supreme Court, not on the basis that there was no genuine issue with respect to a fiduciary duty, but upon the basis of that Court's view (criticized above) that Speck had been employed to invent and that, therefore, the University was the owner of the secret process. [FN74] Since Speck was hired to invent, he had no interest in the invention, and therefore, no interest, which could be affected in the University. Hence, the requisite elements of a fiduciary relationship were missing.

Speck was considered by the United States District Court for the Middle District of North Carolina in Madey v. Duke University. [FN75] In Madey, the Plaintiff was an owner of several patents relevant to the use of electron lasers and related equipment. Madey joined Duke University upon the basis that Duke would establish a special laboratory for his use and that he, in turn, would assist the university in obtaining research grants and acting as Principal Investigator. The relationship between Madey and Duke soured, with the result that Madey was excluded from the use of a laboratory and the

equipment. Madey sued, inter alia, for misappropriation of business opportunities, in breach of a fiduciary duty owed to him by the University.

Duke argued that Speck established a general principle that no fiduciary relationship can exist between university professors and the universities that employ them. The Court held that although no fiduciary duty arose from the facts of Speck, it was not a matter of settled law that *165 a fiduciary duty could not exist between universities and professors. Indeed, the court distinguished Speck as a case in which the faculty members had been hired and provided with resources in order that they could pursue their research, whereas in Dr. Madey's case, the patents and related equipment were developed well before he came to Duke. These were circumstances, the Court concluded, in which a fiduciary duty might well exist.

There is no Canadian case law that has considered whether a university owes a fiduciary duty to a faculty member in the context of an intellectual property policy. In Radhakrishnan v. U.C.F.A., [FN76] the Court found that there was no fiduciary relationship owed by the University of Calgary to a faculty member who had signed a settlement agreement for his termination, on the basis that such duties are rarely imposed on employers and that the faculty was not vulnerable to the University as he had been represented by a bargaining agent. That case, however, is distinguishable as one involving a collective agreement.

It is submitted that the reasoning of the North Carolina Court of Appeal in Speck is persuasive, and that the suggestion (made in Madey) that the issue turns on whether the intellectual property in question was developed inside or outside the university, is absurd. Once it is established that the intellectual property in question is owned by the faculty member, and that it is subject to an intellectual property policy, then the only question becomes, whether as a result of the application of that policy, the university can, by the exercise of some discretion or power accorded to it, unilaterally affect the rights of the faculty member/inventor, rendering that individual vulnerable to the mercy of the university. If the answer on a fulsome analysis of the intellectual property policy involved is "yes", then a fiduciary duty exists. Thus, for example, if a university has an exclusive discretion to determine the manner of commercialization of an invention, and the manner of that commercialization has a significant impact on the revenue available to be shared between the inventor and the university, the university is in a position to unilaterally affect the rights of the faculty member/inventor. The individual is vulnerable to the mercy of the university. The fiduciary *166 duty exists. The issue then becomes defining the scope of that duty. [FN77] The resolution of that issue will depend upon the facts of each case.

As has already been suggested, university intellectual property policies impose relationships, which are akin to joint ventures; that is to say "an association of two or more persons to carry out a single enterprise for profit, without an actual partnership". [FN78] It is a matter of settled law that joint venturers owe fiduciary duties to each other, similar to those owed by partners. These involve, at a minimum, "reciprocal obligations of good faith and loyalty as regards the common interest in the common venture" and, in particular, include the duty of full disclosure, the duty not to make secret profits, and the duty not to compete with the business of the venture. [FN79] As a matter of general principle, therefore, it can hardly be doubted that a university owes to an employee/inventor, qua coventurer, a fiduciary duty. The rationale for the imposition of such a duty is strengthened by the fact that the joint venture is, in many cases, *167 imposed upon the employee/inventor as a result of a contract which is not the result of an exercise of equal bargaining power.

(ii) Contractual Duty of Good Faith

A fiduciary duty is to be distinguished from the duty of good faith, which may arise between contracting parties. Where a fiduciary duty does not exist, a duty of good faith may. The Supreme Court of Canada has recognized that the duty of good faith has particular application in employment situations where:

1. The formation of the contract is not the result of the exercise of bargaining power between two equals;
2. The person in the weaker position is unable to achieve a more favourable contractual terms because of, for example, that person's inability to access information;
3. The power and balance continues to affect other facets of the relationship after the contract has been entered into. [FN80]

The Ontario Court of Appeal has recently articulated the difference between a fiduciary duty and duty of good faith in the following terms:

There is at least one important difference between the duty of good faith and fiduciary duty. If, for example A owes a fiduciary duty to B, A must act only in accordance with B's interests when A exercises his powers or exercises a discretion arising out of the relationship ... If, on the other hand, A owes a duty of good faith to B, A must give consideration to B's interests as well as to its own interests before exercising its power. Thus, if A owes a duty of good faith to B, so long as A deals honestly and reasonably with B, B's interests are not necessarily paramount [FN81]

In terms of a contractual duty of good faith in the context of an intellectual property policy, regard must be had to *Kucharczyk v. Regents of the University of California*. [FN82] In *Kucharczyk*, the plaintiffs were *168 inventors of magnetic resonance imaging (MRI) technology and had assigned their rights to the University pursuant to a Patent Agreement entered into upon their employment at the University. The University licensed the patent in issue for a total of \$25,000. The Plaintiffs alleged that the patent was worth significantly more and that they, as inventors, were entitled to greater rewards. Specifically, the Plaintiffs contended that the University was obligated by contract to obtain a "reasonable running royalty" from the licensing of their invention. They argued that the patent policy included a "Summary" which imposed a contractual duty to obtain royalties and, by extension, reasonable royalties. The University argued that the Summary was not part of the Patent Policy, but exactly what it stated to be--a simple summary. Justice Lynch of the United States District for the Northern District of California concluded that the Summary was not a part of the policy and that the policy itself explicitly limited its distribution to "royalties, if any". He held, on that basis, that there was no express contractual duty to obtain royalties and that there was no implied duty to obtain royalties because an implied term would contradict the express term which called for a division of "royalties, if any". Justice Lynch concluded that the doctrines of good faith and fair dealing were inapplicable for the same reason.

Justice Lynch left "for another day" the question whether the University had violated some other contractual duty to the Plaintiffs and, in particular, whether the University had a contractual duty to the Plaintiffs to conduct an inventorship audit, [FN83] and to properly inform itself regarding the nature and value of the invention before negotiating a licence. Those issues came on before Justice Breyer of the same court in 1999. [FN84] On his review of the contract, Justice Breyer concluded that the contractual documents did not include any express obligations with respect to an inventorship audit or otherwise and that there was no evidence before him in support of the argument that such duties should be implied. He concluded that the language of the patent policy was such that the university had a substantial discretion in fulfilling its role in the intellectual property system. He went on:

Of course, the fact that the patent policy leaves much to the discretion of the Universities does not mean that the University has no contractual obligations to the plaintiffs.

*169 "Where a contract confers on one party a discretionary power affecting the rights of the other, a duty is imposed to exercise that discretion in good faith and in accord with fair dealing." *Perdue v. Crocker National Bank*, 38 Cal. 3d 913, 923, 216 Cal. Rptr 345, 702 P. 2d 503 (1985); see also *Locke v. Warner Bros., Inc.*, 57 Cal. App. 4th 354, 363 (1997)." In this spirit, the plaintiffs suggest that given the facts and circumstances of the present case, the University's failure to conduct a formal inventorship determination, a determination as to who was the true funding source of the invention, and a thorough investigation into the "true nature" of the invention constituted a breach of contract. In other words, they suggest that even if the University does not have a per se contractual obligation to conduct these activities,

its failure to do so in this particular case was an act of bad faith. [FN85]

On his review of the material before him, however, Judge Breyer was unable to find any evidence that the University had acted in bad faith. As he concluded:

Plaintiffs may very well be correct that the University would have negotiated a running royalty or some other more valuable consideration in exchange for the license had it conducted a more thorough investigation into the nature and origin of the invention. This fact, however, does not confer a valid breach of contract claim upon the plaintiffs. Plaintiffs have failed to submit evidence upon which a reasonable jury could conclude that the university acted in bad faith. Therefore, the Regents' cross-motion for summary judgment on Plaintiff's third cause of action must be granted. [FN86]

Judge Breyer's reasoning may be taken as suggesting, implicitly, that had there been evidence of bad faith in the university's failure to conduct a more thorough investigation into the nature of the invention and negotiate a reasonable royalty, he would have let the issue go to the jury. Presumably the jury would be free to find a breach of contract on the basis of that failure. In some circumstances, that reasoning may stretch the doctrine beyond its proper bounds. The doctrine of good faith is a standard of honest and reasonable dealing. It is directed to the exercise of contractual rights, not to their creation. The doctrine is not, therefore, a licence to "fill in the blanks" and cannot be used to imply contractual rights, which do not exist. [FN87] However, where a contract confers a broad *170 discretion on a university with respect to the commercialization of inventions, which it has appropriated, the purview of the court must be as broad as the discretion. If not, the conduct of the university in fulfilling its end of the bargain with the inventor becomes, literally, unreviewable. It cannot be the case that an inventor whose common law rights have been taken in exchange for a promise of a portion of future royalties is without remedy if the university unreasonably fails to take steps to commercialize the invention or works to unfairly divert the revenues to itself or others. This does not impose on universities a duty to commercialize, instead it imposes a duty to commercialize, or not, acting in good faith. [FN88]

(iii) The Duty Not to Act Arbitrarily or Capriciously

The duty not to act arbitrarily or capriciously is a duty imposed upon a public decision maker exercising discretionary authority of an administrative or adjudicative nature. American courts have specifically held that a university's decision to enter into a licensing agreement (as distinct from allegations with respect to the breach of a patent policy or other contractual obligations) is subject to judicial ("mandamus") review. In *Singer v. Regents of the University of California*, the California Superior Court reviewed decisions by the University of California in *171 respect of the marking of patented articles, the pursuit of infringers, the allocation of royalties, holding in each case that the decisions were neither arbitrary nor capricious. [FN89] Similarly, in *Kucharczyk*, the court held that decisions to grant an exclusive license in exchange for a one time royalty of \$25,000 was not, in the circumstances before it, either arbitrary or capricious. [FN90]

There are no Canadian cases in which the matter at issue was the judicial review of a decision in respect of a patent policy. While Canadian courts have exercised a judicial review function in respect of University decision making in the past, they have done so in very limited fields and with a good deal of reticence. Such decisions as there are relate primarily to complaints of lack of procedural fairness in union, disciplinary and tenure disputes. [FN91] While most universities are creatures of statute, substantive review of university decision making has been limited, as one commentator has noted, by the courts' reluctance to find that decisions taken by university committees (such as a Patent Committee) are made in the exercise of a statutory power, rather than on a contractual or purely private basis. [FN92]

It follows that the availability of substantive judicial review of patent licensing decisions made by Canadian universities is likely limited. This is not to say however that procedural review on fairness grounds is not available. Canadian courts will intervene by way of judicial review or otherwise to ensure procedural fairness. Thus a motion by McMaster Uni-

versity to stay a royalty claim in the Ontario Court by an employee/inventor on the basis that the university's patent policy gave the patent committee jurisdiction over matters of "patent equity" *172 was dismissed. The court found that the composition of the Patent Committee created a reasonable apprehension of bias. [FN93]

(d) Revenue Splitting

Almost all intellectual property policies contain provisions, which allocate net income earned as a result of commercialization as between the inventor and a university. Some provide for a further splitting of the revenue within the university itself, as between the university generally and the inventor's department, or as between the university generally and specified research accounts. Table 1 sets out the allocation of net income to the intellectual property policies of eight Canadian universities.

Allocation of Net Income (Cumulative unless otherwise indicated)				
University of	First \$1,000:	\$1,000 - \$200,000	\$200,000 - \$500,000	\$500,000+
Toronto	100% Inventor	25% Inventor 50% Innovations Foundation 25% University	25% Inventor 25% Innovations Foundation 50% University	25% Inventor, 5% Innovations Foundation, 70% University
Queens University	First \$500,000 100% to Inventor if self-commercialized, or negotiated by Queen's otherwise Negotiated allocation if commercialized by Queens		\$500,000+ 75% to Inventor if self-commercialized. 25% to Queens Negotiated allocation if commercialized by Queens	

University of Shared equally Equity in any spin-off companies is negotiated
Western between university and inventor
Ontario

University of Shared equally
British
Columbia

University of 2/3 to the party which commercializes and 1/3 to the party
Alberta which does not

University of Shared equally
Saskatchewan

McMaster Re-Investment in Research Method: 25% Inventor, 25% University,
University 35.7% Research, 14.3% Indirect cost recovery if there is
 investment in research 50% Inventor, 50% University where
 there is no reinvestment in research

University of First \$100,000 80% Inventor, \$100,000+ 50% Inventor, 50%
Ottawa 20% University University

***173** The sharing of revenues between the university and the inventor, formulaic though they may appear to be, is a matter fraught with interpretation and accounting issues. These often arise from a lack of clarity in the intellectual property policies themselves, most of which, while attempting to allocate revenues according to a specific formula, fail to fully specify the formula or to specifically define their terms. To complicate matters, not all intellectual property policies impose reporting requirements on the party effecting the commercialization or, for that matter, confer audit rights on the passive party.

By way of example, in *Senkan v. Illinois Institute of Technology*, [FN94] the Defendant had agreed to license an invention from the institute for a \$500,000 licensing fee, and to pay \$500,000 to fund a research product to develop the inven-

tion. The Plaintiff was aware of and accepted payment under the policy on the basis of a \$500,000 license fee. The Plaintiff was subsequently dismissed and commenced an action for a proportionate share of the research monies as well. The Court held that the applicable patent policy's use of the terms "net income" and "proceeds" were ambiguous. That ambiguity was, however, resolved on the basis of uncontradicted extrinsic evidence. Summary judgment was, therefore, granted for the Institute.

Universities have, from time to time, proposed interpretations of revenue sharing clauses, which would have significant effects on the share apportioned to inventors. For example, in *Singer*, [FN95] section 6 of the relevant policy provided that, subject to its overriding obligations to *174 "outside organizations", the University would pay to inventors 50% of the net royalties and fees received by it. Clause 7 of the same policy provided that in the disposition of any net income accruing to the University from patents, first consideration was required to be given to the support of research. The Court noted that, presumably, the University would argue that the use of a different phrase "net income" as opposed "net royalties" contemplated a division of the total money flowing from the University through its exploitation of patented technology. Some of the income would go "to the support of research" and some to "gross royalties". The Court stated that such a reading would make the reference to "royalties" a nullity, as the university could decide, at any time and for any reason, to deny its obligation to split royalties with its employees simply by changing the name it assigned to incoming funds, something which the University could not do. [FN96]

In the absence of admissible extrinsic evidence, it is submitted that any ambiguity in the revenue sharing provisions should be resolved in favour of the inventor on an application of the *contra proferentum* rule. This is so because patent policies are, typically, drafted and imposed by universities. [FN97] They are appropriatory. *Prima facie*, they should be interpreted against the drafter, and in favour of the party upon whom they were imposed.

3. CONCLUSION

Revenue earned from the commercialization of inventions by faculty members is an important and growing source of university funding. The ability of university's to access those revenues is however restricted by the principle that an invention made by a faculty member or university employee is, at common law, ordinarily the property of the inventor. Universities have adopted intellectual property policies to displace this principle with a regime in which the university is, if not the owner or co-owner of inventions, it is at least a beneficiary of any commercial revenue resulting therefrom. Their effect is to impose a co-venture or joint venture as between the university and the inventor. The enforceability of these policies, as "contracts to the contrary", must be considered on a case-by-case basis. At issue, in each case, is the presence and quality of consent by the inventor.

*175 It has been suggested that recent decisions in American courts favour the enforceability of intellectual property policies and, co-relatively, limit the rights of faculty members/inventors. Closer analysis suggests, however, that these cases were decided on their particular facts. If recent American authority is notable for any tendency, it is a reluctance to find that intellectual property policies give rise to fiduciary or good faith duties on the part of universities. Intellectual property policies vest in universities substantial discretion to affect the ongoing financial interests of faculty member/inventors. In light of the ambiguity which characterizes most intellectual property policies, recognition that they create fiduciary and good faith duties, may provide the only mechanism for ensuring that employee/inventors receive what remuneration and other consideration is left to them.

[FN1]. Borden Ladner Gervais LLP, Ottawa, with thanks to Iain Beaudoin and Kathy Paterson. Special thanks to Mr. Ken Clark (Gowlings, Toronto) for his thoughtful comments on the final draft.

[FN1]. Statistics Canada, Survey of Intellectual Property Commercialization in the Higher Education Sector, C. Read

(Ottawa: Science, Innovation and Electronic Information Division, 2003 at 4).

[FN2]. Ibid. at 21.

[FN3]. Ibid. at 25. Estimates vary. See The Association of University and Technology Managers, Licensing Survey: FY 2002 Survey Summary, p. 26.

[FN4]. Association of University Technology Managers, Licensing Survey: FY 2002, Survey Summary, supra note 3, pp. 63-65.

[FN5]. R. Armit, "A Wrap-Around Summary and Introduction to Presentations" (Paper summarizing ICUR International Conference on Innovation and Commercialization of University Research, February 2002) Canadian Foundation for Innovation, 2002.

[FN6]. See "Action File: Commercialization", Association of Universities and Colleges of Canada, (2003) on-line: Association of Universities and Colleges of Canada, http://www.aucc.ca/publications/auccpubs/research/actionfile_e.html. There is however disagreement on how important the source of revenue commercialization is. See "Discussion Paper on Academic Staff and Intellectual Property", Canadian Association of University Teachers (undated), p. 1.

[FN7]. Virtually every major Canadian university has an intellectual property policy. Those reviewed for this article include the policies of McMaster University, the University of Alberta, Queen's University, the University of Toronto, the University of Western Ontario, the University of British Columbia, the University of Saskatchewan, and the University of Ottawa, all of which are available online from their respective institutions.

[FN8]. University intellectual property policies share many of the features of, and pose many of the same problems as, intellectual property policies utilized by firms in the private sector, as well as non-governmental organizations. The primary difference between university and private sector policies is that the former typically share commercialization revenues, while the latter do not. That being said, both function to displace the common law principle of employee ownership of inventions and, to that extent, both raise a similar legal issue as to their enforceability. A study of university intellectual property policies can, therefore, provide some insight under the enforceability of intellectual property policies in private and NGO sectors.

[FN9]. This is generally true, but exceptions may exist in the U.S. For example, [Ohio Revised Code §3345.14\(B\)](#) states "All rights to and interests in discoveries, inventions, or patents which result from research or investigation conducted in any experiment station, bureau, laboratory, research facility, or other facility of any state college or university ... shall be the sole property of that college or university".

[FN10]. There are very few Canadian cases dealing with intellectual property policies. Those which exist are determinative of little more than the fact that such policies pose a myriad of issues. For example, in [O'Brien v. University of Guelph](#) (1996), 18 O.T.C. 230, 1996 CarswellOnt 4312, [1996] O.J. No. 4026 (Ont. Gen. Div.), affirmed (1997), 100 O.A.C. 321, 1997 CarswellOnt 1307 (Ont. C.A.), the Defendant University had brought a motion for summary judgment upon the Plaintiff's allegations of his ownership of the University's patent and the University's negligence in the commercialization of an invention for the diagnosis of porcine malignant hypothermia. The University relied upon its inventions policy, evidence of the Plaintiff's knowledge of that policy, certain (unspecified) agreements confirming ownership and control of the University, and the common law with respect to inventions by an employee. The motion for summary judgment was dismissed. Clarke, J. concluded that there were triable issues in respect of the University of Guelph's legislative authority to "expropriate" the personal property of Professor O'Brien, considering, the applicability of the common law

doctrines, as well as undue influence and unconscionable bargaining. See also [Balanyk v. University of Toronto \(1999\)](#), 1 C.P.R. (4th) 300, 1999 CarswellOnt 1786, [1999] O.J. No. 2162 (Ont. S.C.J.).

[FN11]. Cross-national comparisons must be approached with caution. Legal principles and context differ, with the result that direct comparisons are not always possible. While differences may be trivial in some respects (as for example in the basic common law principles governing employee ownership of inventions), they may be significant elsewhere (as for example in the availability of judicial review of administrative decisions by universities). The authors have attempted to highlight significant doctrinal differences where they exist.

It should be noted that U.S. cases have since 1980 been decided in the context of the Bayh-Dole Act, which provides that where faculty research is carried out under government sponsorship, the university has the right to assume title. The government receives a non-exclusive royalty fee licence and the inventor a share of the proceeds of commercialization. One practical effect of the Bayh-Dole Act was to require universities to enact intellectual property policies to establish means of complying with the Act. The appropriation of inventions by faculty members in the United States is, on that basis, statutorily mandated, at least in respect of research conducted with federal funding. There is no equivalent legislation in Canada.

[FN12]. See for example, Industry Canada, *University Research and the Commercialization of Intellectual Property in Canada* (Occasional Paper No. 21) (Ottawa: Research Publications Program, 1999); and Statistics Canada, Appendix 2; *Survey of Intellectual Property Commercialization in the Higher Education Sector* (Ottawa: Science, Innovation and Electronic Information Division, 2003), as well as C.R. Cates, "Legal Issues within the Intellectual Property Policies of Universities: Standing on the Shoulders of Giants" (XIII 2001) online: The Journal of the Association of University Technology Managers <<http://www.autm.net>. See also A. Ketis, J. Rudolph, and M. Gravel "Ownership of Intellectual Property Policies of Canadian Universities: Standing on the Shoulders of Giants" (2002), *Journal of the Association of University Technology Managers* (Volume XIII, p. 13).

[FN13]. Action File, *supra* note 6 at 3.

[FN14]. *Whirlpool Corp. v. Camco Inc.*, 2000 CarswellNat 2846, 2000 CarswellNat 2861, 194 D.L.R. (4th) 193, 263 N.R. 88, 186 F.T.R. 268 (note), REJB 2000-21503, [2000] S.C.J. No. 68 (S.C.C.) at para. 37, reconsideration refused (2001), 2001 CarswellNat 283, 2001 CarswellNat 284 (S.C.C.). See s. 44 and 45 of the Patent Act, R.S.C. 1985, c. P-4, as amended. Where an application for a patent is filed before October 1, 1989, the term of the patent is 17 years from the date upon which the patent was issued. In respect of patents applied for on or after October 1, 1989, the term is 20 years from the filing date.

[FN15]. 283 F. Supp.2d 615 (D. Conn., 2003).

[FN16]. (1825), 1 C. & P. 558 at 564, 171 E.R. 1316 (U.K.).

[FN17]. (1991), 45 F.T.R. 241, 38 C.P.R. (3d) 29, 1991 CarswellNat 207, [1991] F.C.J. No. 987 (Fed. T.D.).

[FN18]. 289 U.S. 178, 53 S.Ct. 554, 77 L.Ed. 1114, 17 U.S.P.Q. 154 (U.S. Sup. Ct., 1933), amended 289 U.S. 706 (1933).

[FN19]. Comstock, *supra* note 17 at 52 [F.T.R.].

[FN20]. Comstock, *ibid.*, relying upon *Piper v. Piper* (1904), 3 O.W.R. 451, 1904 CarswellOnt 251 (Ont. C.A.) at 455 [O.W.R.]; *Spiroll Corp. v. Putti* (1975), 22 C.P.R. (2d) 261, 64 D.L.R. (3d) 280, [1975] W.W.D. 126, 1975 CarswellBC

257 (B.C. S.C.), affirmed (1976), 29 C.P.R. (2d) 260, 77 D.L.R. (3d) 761, [1976] W.W.D. 150, 1976 CarswellBC 380 (B.C. C.A.). This is so in the United States as well. See *Marshall v. Colgate-Palmolive-Peet Co.*, 175 F.2d. 215, 81 U.S.P.Q. (BNA) 517 (3d Cir. Del., 1949).

[FN21]. *Dubilier*, supra note 18.

[FN22]. It should be noted that both Canadian and U.S. law accept the notion that employers have a shop-right, with respect to an invention made in the course of employment but belonging to the inventor. A shop-right is a non-exclusive royalty free right of use by the employer. *Dubilier* discusses the U.S. law on shop-right, supra note 16 at 188-89 [U.S.]. See also *University Patents, Inc. v. Kligman*, 762 F. Supp 1212, 20 U.S.P.Q.2d (BNA) 1401 (E.D. Pa., 1991) at 1220 [F. Supp.].

[FN23]. *Comstock*, supra note 17 at 53-4 [F.T.R.].

[FN24]. 53 B.C.L.R. (3d) 257, 78 C.P.R. (3d) 443, 1998 CarswellBC 104, [1998] 10 W.W.R. 688, 38 B.L.R. (2d) 279 (B.C. S.C.).

[FN25]. *Ibid* at 450 [B.C.L.R.]. The same point is made in the context of U.S. law in *Standard Parts Co. v. Peck*, 264 U.S. 52, 68 L.Ed. 560, 44 S.Ct. 239 (U.S., 1924). The reasoning of the Supreme Court in *Standard Parts* is of interest. The court held that the agreement to assign could be implied from the context of the employment.

[FN26]. These were the facts in *Dubilier*, supra note 18. See the discussion on this point in P.K. Chew, "Faculty-Generated Inventions: Who Owns the Golden Egg?" (1992) *Wis. L. Rev.* 259 at 264-65.

[FN27]. *E.I Du Pont de Nemours and Co. v. Okuley*, 2000 U.S. Dist. LEXIS 21385 (S.D. Ohio, 2000), affirmed 344 F.3d 578, 68 U.S.P.Q. 2d (BNA) 1309 (6th Cir., 2003).

[FN28]. In *C.I. Covington Fund Inc. v. White* (2000), 10 C.P.R. (4th) 49, 22 C.B.R. (4th) 183, 10 B.L.R. (3d) 173, 2000 CarswellOnt 4680, [2000] O.J. No. 4589 (Ont. S.C.J.), affirmed (2001), 15 C.P.R. (4th) 144, 2001 CarswellOnt 3527, 28 C.B.R. (4th) 177, 17 B.L.R. (3d) 277, 152 O.A.C. 39 (Ont. Div. Ct.), the Court found that the CEO and controlling shareholder spent 75% of his time on research and development and was therefore "employed to invent". Similarly, in *Helbig v. Oxford Warehousing Ltd.* (1985), 6 C.P.R. (3d) 460, 1985 CarswellOnt 886, 51 O.R. (2d) 421, 20 D.L.R. (4th) 112, 9 O.A.C. 145, 9 C.C.E.L. 75 (Ont. C.A.), leave to appeal refused (1985), 64 N.R. 157 (note), 14 O.A.C. 240 (note), 52 O.R. (2d) 754 (headnote only) (S.C.C.), the vice-president and general manager could not assert ownership of a patent he developed while employed at the company. In both cases, the inventor was also found to be a fiduciary. The finding of a fiduciary relationship is the more plausible explanation that the employee could not assert ownership, rather than that the employee fell within the "employed to invent" exception. See section 5.1 of this paper for a discussion on fiduciary duties.

[FN29]. 311 N.C. 679, 319 S.E.2d 139 (1984), reversing 64 N.C. App. 419, 307 S.E.2d 785 (1983).

[FN30]. *Speck*, *ibid.*, at 686-87 [N.C.].

[FN31]. Chew, "Faculty-Generated Inventions", supra note 26 at 302-03.

[FN32]. *Madey v. Duke University*, 1999 U.S. Dist. Lexis 21379 (M.N. D.C., 1999). See discussion in section 5.1. See also the discussion therein of *Kaplan v. Johnson*, 409 F. Supp. 190, 189 U.S.P.Q. (BNA) 501 (N.D. Ill., 1976), reversed *Kaplan v. Corcoran*, 545 F.2d 1073, 192 U.S.P.Q. (BNA) 129 (7th Cir. Ill., 1976).

[FN33]. See Kligman, *supra* note 22 at 1220 [F. Supp.].

[FN34]. Where the employer makes claim under a contract to the contrary, it is for the employer to prove the contractual term, show that the invention was conceived during the term of the employment and demonstrate that any conditions precedent to the employee's obligation have been discharged. See *Mosser Industries, Inc. v. Hagar*, 200 U.S.P.Q. (BNA) 608 (C.P. P.A., 1978).

[FN35]. 342 F.3d 1290 (Fed. Cir., 2003). See as well *Regents of the University of Colorado v. KDI Precision Products, Inc.*, 488 F.2d 261(10th Cir. Colo., 1973).

[FN36]. 321 F.3d 1111, 55 Fed. R. Serv. 3d 856, 66 U.S.P.Q. 2d (BNA) 1001 (Fed. Cir., 2003).

[FN37]. 1996 W.L. 775106 (Cal. App. Super., 1996) [hereinafter Singer (No. 1)]. See also *Shaw v. The Regents of the University of California*, 58 Cal. App. 4th, 67 Cal. Repr.2d 850 (3d Dist., 1997) at 856 [Cal. Repr.2d]. This is also consistent with *Kucharczyk v. Regents of the University of California*, 946 F. Supp. 1419 (N.D. Cal., 1996) (herein "Kucharczyk (No. 1)") where the Court found that a patent policy was unequivocally referred to in a patent agreement and was thereby incorporated by reference into the agreement.

[FN38]. There are no Canadian cases on dealing with incorporation of an intellectual property policy by reference. There are cases dealing with the incorporation of other kinds of university policies. For example a university policy with respect to the payment of residence fees on withdrawal part way through the school year was found to be contractual because it was contained in the Calendar and because students agreed, as part of their registration to be bound by the terms of the Calendar. *Acadia University v. Sutcliffe* (1978), 30 N.S.R. (2d) 433, 85 D.L.R. (3d) 115, 1978 CarswellNS 421 (N.S. Co. Ct.), affirmed (1978), 30 N.S.R. (2d) 423, 95 D.L.R. (3d) 95, 49 A.P.R. 423, 1978 CarswellNS 222 (N.S. C.A.).

[FN39]. 14 U.S.P.Q.2d 1337 (W.D.N.C., 1989), affirmed in part and reversed in part on other grounds 18 U.S.P.Q.2d (BNA) 1087 (Fed. Cir., 1991).

[FN40]. 1987 U.S. Dist. LEXIS 6929 (D. R.I., 1987).

[FN41]. S.R. Ball, *Canadian Employment Law*, looseleaf (Aurora: Canada Law Book, 2004), at 6-35/36.

[FN42]. *Techform Products Ltd. v. Wolda* (2000), 5 B.L.R. (3d) 111, 1 C.C.E.L. (3d) 118, 5 C.P.R. (4th) 25, 2000 CarswellOnt 1402 (Ont. S.C.J.), additional reasons at (2000), 2000 CarswellOnt 6253, 5 B.L.R. (4th) 47, 5 C.P.R. (4th) 25 at 52 (Ont. S.C.J.), reversed (2001), 56 O.R. (3d) 1, 15 C.P.R. (4th) 44, 12 C.C.E.L. (3d) 184, 19 B.L.R. (3d) 72, 2001 CarswellOnt 3461, 206 D.L.R. (4th) 171, 150 O.A.C. 163, [2001] O.J. No. 3822 (Ont. C.A.), leave to appeal refused 2002 CarswellOnt 2297, 2002 CarswellOnt 2298, [2002] 3 S.C.R. xii, 295 N.R. 196 (note), 171 O.A.C. 400 (note), [2001] S.C.C.A. No. 603 (S.C.C.).

[FN43]. *Shaw*, *supra* note 37.

[FN44]. *Fenn*, *supra* note 15.

[FN45]. *Ceccol v. Ontario Gymnastic Federation* (2001), 55 O.R. (3d) 614, 204 D.L.R. (4th) 688, 11 C.C.E.L. (3d) 167, 149 O.A.C. 315, 2002 C.L.L.C. 210- 007, 2001 CarswellOnt 3026, [2001] O.J. No. 3488 (Ont. C.A.). In the U.S., there is a variability between states in how generously an employment contract will be interpreted in the employee's favour. Where a contract imposes coercive and harsh provisions on the employee, the courts will construe the contract liberally

in the employee's favour, [Standard Plunger Elevator Co. v. Stokes, N.Y.](#), 212 F. 893, 129 C.C.A. 413 (U.S.).

[FN46]. [Ceccol, ibid.](#), at para. 25, and [Burns v. Oxford Development Group Inc. \(1992\)](#), 28 A.R. 345, 1992 CarswellAlta 625 (Alta. Q.B.), [Ringer v. Graham, App.](#), 359 S.E.2d 523, 293 S.C. 238 (U.S.).

[FN47]. [Greenberg v. Meffert \(1985\)](#), 50 O.R. (2d) 755, 18 D.L.R. (4th) 548, 1985 CarswellOnt 727, (sub nom. [Greenberg v. Montreal Trust Co.](#)) 9 O.A.C. 69, 7 C.C.E.L. 152, 37 R.P.R. 74 (Ont. C.A.), leave to appeal refused [1985] 2 S.C.R. ix (note), 14 O.A.C. 240 (note), 64 N.R. 156 (note), 56 O.R. (2d) 320 (note), 30 D.L.R. (4th) 768 (note) (S.C.C.); [Truckers Garage Inc. v. Krell \(1993\)](#), 1993 CarswellOnt 875, 3 C.C.E.L. (2d) 157, 68 O.A.C. 106, [1993] O.J. No. 3141 (Ont. C.A.), additional reasons at (1994), 1994 CarswellOnt 2956 (Ont. C.A.). While Canadian courts readily impose obligations of good faith and fair dealing in employment contracts containing discretionary provisions, U.S. courts are often more reluctant to do so ([Moore v. McGrawEdison Co.](#), 804 F.2d. 1026 (C.A. 8 (Minn.)). However, there is some U.S. authority which holds that an implied-in-law covenant of good faith and fair dealing is inherent in the employment contract ([Gianaculas v. Trans World Airlines, Inc.](#), 761 F.2d 1391 (C.A. 9 (Cal.)), [Kravetz v. Merchants Distributors, Inc.](#), 440 N.E.2d 1278, 387 Mass. 457 (Mass.)). As discussed below, U.S. courts are also more willing to apply obligations of good faith when the university patent policy forms a term of the employment relationship.

[FN48]. [Canadian Pacific Hotels Ltd. v. Bank of Montreal](#), [1987] 1 S.C.R. 711, EYB 1987-67461, 1987 CarswellOnt 760, 1987 CarswellOnt 962, 77 N.R. 161, 21 O.A.C. 321, 41 C.C.L.T. 1, 40 D.L.R. (4th) 385, [1987] S.C.J. No. 29 (S.C.C.) at 776 [S.C.R.].

[FN49]. [Ibid.](#) at 775 and 776 [S.C.R.].

[FN50]. Canadian courts have generally eschewed attempts by employers to elevate administrative policies into contractual terms by implication. As one commentator has noted:

Employers often attempt to impose employment terms through guidelines and manuals which purport to limit the common law protections non-organized employees possess. This approach is an ineffective method of creating contractual terms. Canadian jurists have been vigilant in preventing unilateral modification of implied rights the common law affords to non-organized employees through documents which are not clearly contractual in nature. [Ball, "Canadian Employment Law" supra note 40 at 6-35].

That reluctance extends to university policies. In [Wheeldon v. Simon Fraser University \(1970\)](#), 15 D.L.R. (3d) 641, 1970 CarswellBC 253 (B.C. S.C.), the Plaintiff was an assistant professor at Simon Fraser University against whom dismissal procedures had been taken. The proceedings themselves followed a procedure set out in a University statement on academic freedom and tenure. The Plaintiff sought a declaration that the Statement formed part of her contract of employment and bound the University. Hinkson J. declined to grant the relief requested on the ground that the evidence did not establish and that the statement was enacted for the purpose of creating legal relations. In short, the Board of Governors had not intended that the statement should give rise to legal consequences. Because a contract requires meeting the minds of both parties, the statement could not have said to be contractual.

In [Gray v. Alma Mater Society of the University of British Columbia](#), 15 B.C.L.R. (4th) 358, 2003 BCSC 864, 2003 CarswellBC 1390, 16 C.C.L.T. (3d) 300 (B.C. S.C.), members of Students for Life, a subsidiary organization of the Alma Matter Society, commenced an action in which they claimed that the university calendar and associated literature created a contract, an implied term of which was the Students for Life had the right to express their pro-life views freely. In that context (as between the University and student) Cohen J. held that there existed a contractual relationship, but went on to conclude that "In my opinion ... a statement of policy in a university document, without more, does not give rise to enforceable contractual right by the students of that university. I think this proposition is also at the root of the decision in [Wheeldon v. Simon Fraser University ...](#)" Cohen J.'s conclusion supports the broader conclusion that a university intel-

lectual property policy is not, without more, an enforceable document. Absent an express term in a faculty member's contract of employment incorporating such a policy, a university seeking to rely on its intellectual property policy must fit itself within the relatively narrow confines of the doctrine of implied terms.

See also [Dolmage v. Erskine \(2003\)](#), 23 C.P.R. (4th) 495, 2003 CarswellOnt 161 (Ont. S.C.J.) where it was held that faculty enjoyed the ownership of copyright in their work, notwithstanding the provisions of the Copyright Act. The Court held that there was an "academic exception" which constituted an "agreement to the contrary" within the meaning of s. 13(3) of the Copyright Act.

[FN51]. This doctrine is more clearly articulated in the United States. See [Teets v. Chromalloy](#), 83 F.3d 403, 38 U.S.P.Q.2d (BNA) 1695 (Fed. Cir., 1996). In Canada, see [M.J.B. Enterprises Ltd. v. Defence Construction \(1951\) Ltd.](#), [1999] 1 S.C.R. 619, 170 D.L.R. (4th) 577, 1999 CarswellAlta 301, 1999 CarswellAlta 302, 49 B.L.R. (2d) 1, 237 N.R. 334, 44 C.L.R. (2d) 163, 232 A.R. 360, 195 W.A.C. 360, 15 Const. L.J. 455, 2 T.C.L.R. 235, 69 Alta. L.R. (3d) 341, [1999] 7 W.W.R. 681, 3 M.P.L.R. (3d) 165, [1999] S.C.J. No. 17 (S.C.C.); and [Chitty on Contracts](#) (London [Eng.]: Sweet & Maxwell, 1994 (27th ed.) Vol. 1, p. 1-020.

[FN52]. *Supra* note 42.

[FN53]. [Techform](#), *ibid.*, at para. 43.

[FN54]. [Kligman](#), *supra* note 22.

[FN55]. *Ibid.*, at 1228-29 [F. Supp.].

[FN56]. 254 F.3d 1347, 59 U.S.P.Q.2d (BNA) 1257 (Fed. Cir., 2001).

[FN57]. 278 F.3d 1288, 61 U.S.P.Q.2d (BNA) 1449 (Fed. Cir., 2002).

[FN58]. N. Ohashi, "The University Inventor's Obligation to Assign: A Review of U.S. Caselaw on the Enforceability of University Patent Policies", (2003) Vol. XV, *Journal of the Association of University Technology Managers*, 49.

[FN59]. 409 F. Supp. 190, 189 U.S.P.Q. (BNA) 501 (N.D. Ill., 1976), reversed (sub nom. [Kaplan v. Corcoran](#)) 545 F.2d 1073, 192 U.S.P.Q. (BNA) 129 (7th Cir. Ill., 1976).

[FN60]. (1991), 58 B.C.L.R. (2d) 254, 37 C.C.E.L. 46, 1991 CarswellBC 190, [1991] B.C.J. No. 2182 (B.C. S.C.).

[FN61]. (1992), 42 C.C.E.L. 239, 92 C.L.L.C. 14,042, 1992 CarswellBC 863, [1992] B.C.J. No. 858 (B.C. S.C.).

[FN62]. [Starcevich](#), *supra* note 60 at 46-7 [B.C.L.R.].

[FN63]. This is a point made by a number of commentators, including [Chew](#), "Faculty-Generated Inventions", *supra* note 26 at 288-89 and [S.H. Patel](#) "[Graduate Students Ownership and Attribution Rights in Intellectual Property](#)" (1996) 71 *Ind. L J.* 481 at 498-99.

[FN64]. [Patel](#), *ibid.*, at 488-89.

[FN65]. McMaster University is an exception. McMaster produces iodine 125 at its nuclear reactor facility utilizing a process, which is the subject of a patent which the University acquired under its patent policy.

[FN66]. See, for example, [K. LaRoche, J. Asselin, J. Radford](#), "[Insurance Coverage in Intellectual Property Infringement](#)

[Litigation: The Duty to Advise and Inquire](#)", (2002- 2003) 16 I.P.J. 157.

[FN67]. University of Alberta Faculty Agreement, Appendix C: University of Alberta Patent Policy, Clause 7.1. Also, see University of Toronto Research-Related Policies: University of Toronto Inventions Policy, Clause 3.

[FN68]. Singer (No. 1), supra note 37. Singer is instructive not only for the reasons discussed here, but for its ultimate result. The contract claims were tried before a jury, which gave a verdict in favour of the Plaintiffs. The Court overturned the jury verdict upon the basis of its view that the evidence in the case was overwhelming that the university entered into two, separate and distinct - albeit related - decision-making processes that resulted in two separate agreements. There was, in short, no evidence that there was a "package deal". The Court held that the decision of the university to enter into two separate agreements was within the absolute discretion of the university, and subject only to review on the "arbitrator and capricious" standard of judicial "mandamus" review. That standard, said the Court, had been met. See [Singer v. Regents of the University of California](#), 1996 W.L. 775106 (Cal. App. Super., 1996).

[FN69]. [International Corona Resources Ltd. v. Lac Minerals Ltd.](#), [1989] 2 S.C.R. 574, 61 D.L.R. (4th) 14, EYB 1989-67469, 1989 CarswellOnt 126, 1989 CarswellOnt 965, 44 B.L.R. 1, 35 E.T.R. 1, 69 O.R. (2d) 287, 101 N.R. 239, 36 O.A.C. 57, 6 R.P.R. (2d) 1, 26 C.P.R. (3d) 97, [1989] S.C.J. No. 83 (S.C.C.) at 598-99 and 645-46 [S.C.R.].

[FN70]. [Hodgkinson v. Simms](#), [1994] 3 S.C.R. 377, 117 D.L.R. (4th) 161, EYB 1994-67089, 1994 CarswellBC 438, 1994 CarswellBC 1245, 57 C.P.R. (3d) 1, 5 E.T.R. (2d) 1, 95 D.T.C. 5135, 97 B.C.L.R. (2d) 1, 171 N.R. 245, [1994] 9 W.W.R. 609, 49 B.C.A.C. 1, 80 W.A.C. 1, 22 C.C.L.T. (2d) 1, 16 B.L.R. (2d) 1, 6 C.C.L.S. 1, [1994] S.C.J. No. 84 (S.C.C.) at 407 [S.C.R.]. This is particularly so in partnerships and joint ventures, to which the regime established by most intellectual property policies is akin. See Mark Vincent Ellis, [Fiduciary Duties in Canada](#), looseleaf (Don Mills: Thomson, 2004) at chapters 12-13.

[FN71]. Ellis, "Fiduciary Duties" *ibid.*, at 1-3 to 1-4.

[FN72]. Comstock, supra note 17.

[FN73]. Speck, supra note 29.

[FN74]. *Ibid.*

[FN75]. Madey, supra note 32.

[FN76]. (1999), 251 A.R. 298, [2000] 9 W.W.R. 690, 1999 CarswellAlta 876, 81 Alta. L.R. (3d) 308, 1999 ABQB 713, [1999] A.J. No. 1088 (Alta. Q.B.), affirmed (2002), 2002 CarswellAlta 943, 2002 ABCA 182, [2003] 1 W.W.R. 244, 5 Alta. L.R. (4th) 1, 215 D.L.R. (4th) 624, 45 Admin. L.R. (3d) 77, 312 A.R. 143, 281 W.A.C. 143, [2002] A.J. No. 961 (Alta. C.A.).

[FN77]. Even if a university is not found to be a fiduciary with respect to its faculty members, a university may still be in breach of a fiduciary duty on the theory of respondeat superior. In [VanVoorhies](#) (supra, note 57), the Plaintiff argued that both Smith, his supervisor, and the University breached their fiduciary duty to him by misappropriating his invention rights. The Court found that insufficient evidence was introduced by VanVoorhies to establish that Smith breached that duty, and based on the theory of respondeat superior, the claim that the University breached its fiduciary duty also failed. The ruling on fiduciary duty in [VanVoorhies](#) contrasts with the earlier decision in [Chou](#) (supra, note 56). In [Chou](#), the U.S. Court of Appeals found that the inventor Chou's supervisor was guilty of fraudulent concealment in filing a patent application for an invention that Chou developed. The duty to disclose was dependent on the finding that Chou and her

supervisor were in a fiduciary or confidential relationship. Since the supervisor breached his fiduciary duty, on the theory of respondeat superior, the University breached its fiduciary duty to Chou as well.

[FN78]. Black's Law Dictionary, revised, 4th ed. (1968) cited in [International Corona Resources Ltd. v. Lac Minerals Ltd.](#) (1987), 18 C.P.R. (3d) 263, 44 D.L.R. (4th) 592, 1987 CarswellOnt 655, 46 R.P.R. 109, 62 O.R. (2d) 1, 28 E.T.R. 245, 23 O.A.C. 263 (Ont. C.A.) at 308 [C.P.R.], affirmed EYB 1989-67469, 1989 CarswellOnt 126, 1989 CarswellOnt 965, 44 B.L.R. 1, 35 E.T.R. 1, 69 O.R. (2d) 287, 61 D.L.R. (4th) 14, 101 N.R. 239, 36 O.A.C. 57, [1989] 2 S.C.R. 574, 6 R.P.R. (2d) 1, 26 C.P.R. (3d) 97, [1989] S.C.J. No. 83 (S.C.C.).

[FN79]. [Wonsch Construction Co. v. National Bank of Canada](#) (1990), (sub nom. [Wonsch Construction Co. v. Danzig Enterprises Ltd.](#)) 1 O.R. (3d) 382, 75 D.L.R. (4th) 732, 1990 CarswellOnt 135, (sub nom. [Wonsch Construction Co. v. Danzig Enterprises Ltd.](#)) 42 O.A.C. 195, 50 B.L.R. 258 (Ont. C.A.) at 390-391 [O.R.], additional reasons at (1994), 1994 CarswellOnt 2442 (Ont. C.A.).

[FN80]. These principles were articulated in [Wallace v. United Grain Growers Ltd.](#) (1997), [1997] 3 S.C.R. 701, 152 D.L.R. (4th) 1, 36 C.C.E.L. (2d) 1, 1997 CarswellMan 455, 1997 CarswellMan 456, 123 Man. R. (2d) 1, 159 W.A.C. 1, 219 N.R. 161, [1999] 4 W.W.R. 86, 3 C.B.R. (4th) 1, [1997] L.V.I. 2889-1, 97 C.L.L.C. 210-029, [1997] 3 S.C.R. 313, [1997] S.C.J. No. 94 (S.C.C.).

[FN81]. [Shelanu Inc. v. Print Three Franchising Corp.](#) (2003), 64 O.R. (3d) 533, 226 D.L.R. (4th) 577, 38 B.L.R. (3d) 42, 2003 CarswellOnt 2038, 172 O.A.C. 78, [2003] O.J. No. 1919 (Ont. C.A.), additional reasons at (2006), 2006 CarswellOnt 2627, 19 B.L.R. (4th) 19, 269 D.L.R. (4th) 152 (Ont. C.A.).

[FN82]. [Kucharczyk](#) (No. 1), supra note 37 at 1437 [F. Supp.].

[FN83]. [Ibid.](#) at 1432 [F.Supp.].

[FN84]. [Kucharczyk v. Regents of University of California](#), 48 F. Supp.2d 964 (N.D. Cal., 1999) [hereinafter [Kucharczyk](#) (No. 2)].

[FN85]. [Ibid.](#) at 972 [F. Supp.].

[FN86]. [Ibid.](#) at 972-973 [F. Supp.].

[FN87]. This point is made in [Transamerica Life Canada Inc. v. ING Canada Inc.](#) (2003), 68 O.R. (3d) 457, 234 D.L.R. (4th) 367, 2003 CarswellOnt 4834, [2004] I.L.R. I-4258, 41 B.L.R. (3d) 1, [2003] O.J. No. 4656 (Ont. C.A.), where the Court of Appeal stated:

Canadian courts have not recognized a stand alone duty of good faith that is independent from the terms expressed in the contract or from the objectives that emerge from those provisions. The implication of the duty of good faith has not gone so far as to create new, unbargained-for, rights and obligations. Nor has it been used to alter the express terms of the contract reached by the parties. Rather, the courts implied a duty of good faith with a view to securing the performance and enforcement of the contract made by the parties, or as it is sometimes put, to ensure that the parties do not act in a way that eviscerates or defeats the objects of the agreement that they have entered into ... [para. 53].

[FN88]. But see [Kucharczyk](#) (No. 1) (supra note 37 at 1431 [F. Supp.]), where the plaintiffs argued that if the contractual documents at issue were not interpreted to include a requirement that the university obtain a royalty rate based on general industry practices for the type of invention involved, there would be a failure in consideration flowing to the inventors. The Court rejected the argument, on the basis that the Patent Agreement itself recited the inventor's consideration for en-

tering the agreement was "my employment, and ... wages and/or salary to be paid to me during any period of employment, by university and/or my utilization of university research facilities and/or my receipt of gift, grant or contract research funds through the university". Thus the "bargain" in *Kucharczyk* was for employment, not for royalties.

[FN89]. 1996 W.L. 604519 (Cal. App. Super., 1996) [hereinafter *Singer* (No. 2)]. The Court, on its review, concluded that the intellectual property policy did not impose contractual duties to pursue infringers, to share royalties using a weighted allocation, or to mark. Similarly, the Universities' decisions not to mark, pursue infringers, or allocate royalties in the way claimed were not arbitrary or capricious.

[FN90]. *Kucharczyk* (No. 1), supra note 37 at 1439-45 [F. Supp.].

[FN91]. D.A. Nelson, "**Judicial Review** in the **Community of Scholars**: A Short History of *Kulchyski v. Trent*" in *Education and Law Journal* (2004) 13 E.L.J. 367 at 382-83.

[FN92]. D.J.M. Brown and J.M. Evans, *Judicial Review of Administrative Action in Canada* (Toronto: Canvasback Publishing, 2004) at 2:2344; *Kulchyski v. Trent University* (2001), 204 D.L.R. (4th) 364, 148 O.A.C. 165, 2001 CarswellOnt 2759 (Ont. C.A.), leave to appeal refused (2002), 2002 CarswellOnt 825, 2002 CarswellOnt 826, 166 O.A.C. 200 (note), 293 N.R. 195 (note), [2001] S.C.C.A. No. 516 (S.C.C.).

[FN93]. *Hassal v. McMaster University*, Doc. Ottawa 01-CV-16266 (Ont. S.C.J.), Endorsement dated October 30, 2002.

[FN94]. U.S. App. LEXIS 7201 (7th Cir. Ill., 1994).

[FN95]. *Singer* (No. 1), supra note 37.

[FN96]. *Ibid.*, at 2.

[FN97]. This comment will obviously not apply in respect of intellectual property policies contained in collective agreements.

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