UNIVERSITY IP RIGHTS MANAGEMENT VINDICATED

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Last month, the Court of Appeal of the Province of Quebec, in a thoroughly reasoned judgment, reversed the decisions of the Superior Court of Quebec of May 18, 2007 and December 18, 2008 in the dispute that opposed professors, Adrien Beaudoin and Geneviève Martin, to Université de Sherbrooke ("University") for the control of the commercialization of a technology that was developed by the professors at the University and that, for more than six years, held hostage the licensee Groupe Conseil Harland Inc. ("Harland") and then technology acquirer Neptune Technologies & Bioressources Inc. ("Neptune") when it decided to act on an option to acquire the technology from the University.

The facts considered by the Superior Court of Quebec ("Superior Court") and scrutinized by the Quebec Court of Appeal ("Court of Appeal") were abundant, complex and span over a period of more than ten (10) years which made this case very difficult. Once everything was said and done however, the key elements may be summarized as follows:

- Professor Beaudoin was employed by the University since 1972 and Professor Martin since 1994 and as part of their task, they carried out research in their areas of expertise which included "Process for the extraction and purification of krill and calamus oils" and from which the professors filed declarations of inventions with the University;
- The University eventually filed patents of invention on the technology emanating from the declaration of invention and obtained from the professors the required assignments of invention;
- The University then went on to commercialize the technology and entered into a series of agreements with Harland and then with Neptune (the successor to Harland for the purpose of this article) which included a research agreement, a management agreement, a license agreement and an option to purchase;
- Ultimately, Neptune opted to purchase the technology as set out in its option and the University confirmed to Neptune that the provisions of the option were fulfilled and that it would proceed to the sale of the technology with a formal agreement;

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- It is at the time of the transfer based on the option to purchase exercised by Neptune that the professors initiated proceedings against the University, Harland and Neptune arguing, amongst other things, that the University had failed in its duty to commercialise and consult with the professors. Harland and Neptune were also sued in damages for, arguably, having induced the University in acting against the interests of the professors and generally having been in "bad faith".

The factual situation may have appeared, to some, to disfavour the professors, since Neptune, at the time a wholly-owned subsidiary of Harland, was able to complete an Initial Public Offering ("IPO") in part because of its option right to acquire the technology, at an option price set much prior to the date of the IPO, which may have seemed low after the fact, in view of the IPO. The saying "Hindsight is twenty-twenty" seems to have played a role in the balance during the Superior Court Trial.

The Court of Appeal being faced with this appeal where the facts were long and complex was able to realign the case towards an essential issue, amongst others, the sanctity of contracts. Because of the complexity of the facts, the three Court of Appeal judges in their decision, ensured that the key contractual elements were respected, including (i) a sound University policy on IPR (intellectual property rights), known and opposable to the professors, (ii) real commercialization efforts on the part of the "BLEU" (the Technology Transfer Office of the University), (iii) a series of transactions that were commercially reasonable (at the time of commercialization and not after); and (iv) the absence of collusion between the University and Harland/Neptune in trying to defraud the professors of revenues that otherwise would have been payable. Finally, it concluded in the absence of collusion and in a reasonable process followed by the University: "... the University did not fail in its obligation to commercialize the Invention..." (our translation).

This decision of the Court of Appeal is very good news indeed for the University and for all universities of the Province of Quebec. Not only does it confirm the principle of the sanctity of contracts, but it is also the first time, in our opinion, that the entire research system of our universities, prevailing for the last twenty (20) years, has been subjected to such scrutiny. Going forward, the universities of the province should benefit from the increased certainty of their research and commercialization programs to build on more solid ground.

The judgments can be found at the following address:

- Quebec Court of Appeal:
  http://www.canlii.org/fr/qc/qcca/doc/2010/2010qcca28/2010qcca28.html
- Superior Court of Quebec:
  http://www.canlii.org/fr/qc/qccs/doc/2007/2007qccs2291/2007qccs2291.html
  and
  http://www.canlii.org/fr/qc/qccs/doc/2008/2008qccs6025/2008qccs6025.html

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Now if only our governments could be convinced of putting in place solid measures to promote the commercialization of government-funded research, we could aspire to see more of the technologies initiated in the universities, taken up by the private sector, including SMEs.

In a follow-up article, we will discuss the pros and cons of commercialization in the United States federally funded research under "The Bayh-Dole Act".

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