

# PROBLEMS INVOLVED IN THE ASSIGNMENT OF PATENTS AND PATENT RIGHTS \*

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*The author deals with numerous aspects of joint ownership and assignment of patents. Particular attention is given to practical problems that may arise in connection with each aspect taking into account statutory and common-law considerations. The author also discusses the hazards inherent in some areas due to the unsettled state of the law.*

## I. INTRODUCTION

This paper is primarily concerned with problems associated with the assignment of patents and rights arising from patents. These problems include a consideration of the law of contract in three different aspects.

The first aspect relates to assignments applicable to a patent and includes a consideration of certain rights incident to the ownership of a patent, the second to assignments of the benefit of a contract or licence given by a patentee to another, and the third to the rights of the parties to the contract of sale and of third persons in respect of the sale of an article covered by an issued patent.

Patents are governed as to ownership, transmission of ownership and devolution by the ordinary rules applicable to choses in action,<sup>1</sup> except insofar as special provision is made for inventions in section 52 and patents in section 53 of the Patent Act.<sup>2</sup> A patent is a chose in action.<sup>3</sup> The rights arising under a contract whether assignment, licence or sale of a patented article are also choses in action. The ordinary rules of construction of

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<sup>1</sup> In *Torkington v. Magee*, [1902] 2 K.B. 427, at 430, Channell, J., defined a chose in action as follows: "'Chose in action' is a known legal expression used to describe all personal rights of property which can only be claimed or enforced by action and not by taking possession." See generally the cases referred to in argument in *Colonial Bank v. Whinney*, 11 A.C. 426, 429 (1886), in support of the proposition that "'Things in action' are things to get possession of which an action must be brought."

<sup>2</sup> CAN. REV. STAT. c. 203 (1952) [hereinafter cited Patent Act]. Although the common law did not recognize an assignment of a chose in action, equity recognized and enforced the assignment of choses in action generally. Under § 53 of the Patent Act, reproduced note 8, *infra*, patents as choses in action are assignable in law.

<sup>3</sup> *Steers v. Rogers*, [1893] A.C. 232, 235; *British Mutascope v. Homer*, [1901] 1 Ch. 671, 18 R. Pat. Cas. 177; *Edwards v. Picard*, [1909] 2 K.B. 903 (C.A.).

contracts apply to the construction of assignments of a patent, the assignment of the benefit of a licence or a contract of sale of the patented article. Contracts define civil rights and fall within the exclusive jurisdiction of the provincial power.<sup>4</sup> Once a patent has come into existence the ordinary incidents of ownership of a patent are civil rights within provincial jurisdiction.<sup>5</sup> It follows that the problems dealt with in this article are (except for considerations of the specific applicability of the Patent Act) peculiar to and considered solely from the standpoint of the common law and the statutory law applicable to a particular province. In this instance it is the Province of Ontario. It must be appreciated that different statutory provisions may apply in different common-law provinces and different results may flow from the applicable provisions of the civil law of the Province of Quebec.

The Exchequer Court of Canada does not have jurisdiction to give effect to the rights of a party arising under an assignment or any other type of contract.<sup>6</sup> On the other hand, the contractual rights of the parties may come before the court indirectly in respect of a matter over which the court does have jurisdiction.<sup>7</sup> In an infringement action, the Exchequer Court may have to consider whether the defendant has a licence (a contractual right), but, basically, contractual rights are enforced in provincial courts.

## II. JOINT OWNERSHIP

Many knotty problems arise from multiple ownership after an assignment; from a simple assignment, from the transfer of the benefit of a licence agreement, or from the sale of a patented article. An attempt will be made to demonstrate that what many members of the patent profession often treat as routine or commonplace is fraught with legal dangers and pitfalls.

### A. *Joint Tenancy or Tenancy in Common?*

Section 52 of the Patent Act provides that an invention may be assigned and that the assignment may be recorded against the patent when it issues. Section 53 provides that every patent is assignable in law, either as to the whole interest or as to any part of it.<sup>8</sup> An assignment of a patent to several

<sup>4</sup> Section 91(22) of the British North America Act, 1867, 30 & 31 Vict. c. 3, being a matter reserved to the Parliament of Canada, reads: "Patents of Invention and Discovery" but § 92(13), being a matter reserved to the legislatures of the provinces reads: "Property and Civil Rights in the Province."

<sup>5</sup> *McCracken v. Watson*, [1932] Can. Exch. 83.

<sup>6</sup> *Felt Gas Compressing Co. v. Felt*, 14 Can. Exch. 311, 319 (1914); *McCracken v. Watson*, *supra* note 5; *Bertrand v. Warre*, [1932] Sup. Ct. 364.

<sup>7</sup> *Booth v. Sokulsky*, 18 Can. Pat. R. 86, 13 Fox Pat. Cas. 145 (Can. Ex. 1953).

<sup>8</sup> Section 53 of the Patent Act reads as follows:

53(1) Every patent issued for an invention is assignable in law, either as to the whole interest or as to any part thereof, by an instrument in writing.

(2) Such assignment, and every grant and conveyance of any exclusive right to make and use and to grant to others the right to make and use the invention patented, within and

persons in undivided shares is good. A patent may issue on an invention made by more than one inventor. There may be several owners of a patent in any number of varying shares. Since multiple ownership may exist on the issuance of a patent or by the assignment of the patent, the question of the rights amongst the co-owners is immediately raised.

If a patent issues to more than one person, in the absence of an agreement defining the rights of the parties, there is real basis for the belief that the parties hold the property right as joint tenants and not as tenants in common. Similarly, where an assignment is made to two or more individuals by an instrument that does not define the relationship with words indicating a tenancy in common the assignees will hold the patent as joint tenants. The very significant difference arising from the different relationships is that in a joint tenancy on the death of a co-owner, his interest in the property right vests in the surviving co-owner or owners and not, as in a tenancy in common, in his personal representative. In Canada, there is no provision in the Patent Act that defines the relationship of co-owners of a patent arising either on issuance or by virtue of an assignment.<sup>9</sup> Accordingly, two principal cases dealing with the matter ought to be considered. Because they lead to different results the problem must be considered on the basis of first principles.

The earlier of the two cases is that of *Dunnicliff v. Mallett*<sup>10</sup> wherein Mr. Justice Byles stated :

Having no precedent to guide us in this case, we are compelled to have recourse to the general rule of law. There can be no doubt that an assignment

throughout Canada or any part thereof, shall be registered in the Patent Office in the manner from time to time prescribed by the Commissioner.

(3) No such assignment, grant or conveyance shall be registered in the Patent Office unless it is accompanied by the affidavit of a subscribing witness or established by other proof to the satisfaction of the Commissioner that such assignment, grant or conveyance has been signed and executed by the assignor and also by every other party thereto.

(4) Every assignment affecting a patent for invention, whether it be reference to this section or section 52, is null and void against any subsequent assignee unless such instrument is registered as hereinbefore prescribed, before the registration of the instrument under which such subsequent assignee claims.

It will be noted that the formal requirement for an assignment is that it be in writing. But to be registered, there must be evidence of execution by the assignor and "also by every other party thereto." This latter requirement which is usually honoured in the breach notwithstanding the mandatory wording of § 53(3), is unnecessary and should be removed.

<sup>9</sup> In England § 37(1) of the Patents and Designs Act, from 1907, 7 Edw. 7, c. 29, to 1946, 9 & 10 Geo. 6, c. 44, defined the relationship as one of joint tenancy but made further specific provisions that the interest of the deceased co-owner vested in his personal representative. Sections 54(1) and 54(5) of the Patent Act, 1949, 12, 13 & 14 Geo. 6, c. 87, have been considered to lead to the same result but the act is not now as specific.

TERRELL, *LAW OF PATENTS* at § 665 (11th ed. 1965), has the statement : "The rules applicable to the devolution of personal property generally apply in relating to patents as they apply in relation to other choses in action." It is then followed by the *non-sequitur* : "Accordingly, the undivided share of a co-owner devolves upon his personal representative." Unless § 54(1) and § 54(5) give a statutory vesting in the personal representative of the deceased co-owner, by virtue of the reference to personal representative in § 54(5) which is doubtful, the categorical statement of the author is too strong.

BLANCO WHITE, *PATENTS FOR INVENTIONS* 285 (3d ed. 1962) deals with the matter but relies upon § 37(1) of the former acts as well as the current § 54(1) and § 54(5).

<sup>10</sup> 7 C.B.N.S. 203, 141 Eng. Rep. 795 (1859).

of a patent to several persons of an undivided share is good. My brother Hayes says the assignees would in that case take as tenants in common. If so, there can be no reason why they should not take different portions — one, one tenth; another, nine tenths.<sup>11</sup>

In the second case, *Nat'l Soc'y for the Distribution of Elec. by Secondary Generators v. Gibbs*,<sup>12</sup> Mr. Justice Cozens-Hardy stated as follows :

On the construction of this grant I think the two patentees took a joint interest, which passed by survivorship to Gibbs on the death of Goulard. It was scarcely disputed that a grant, whether by the Crown or by a private individual, of any ordinary species of property to A.B. and C.D., their executors, administrators, and assigns, would create a joint tenancy or joint interest, and not an interest in common. This is not a rule of tenure or of real property law. It applies to an assignment of a policy of assurance as much as to an assignment of a term of years. But it was urged that letters patent are of such a peculiar quality and nature that different principles of interpretation ought to be applied. I am unable to follow this argument. The right of privilege granted by the Crown by the letters *patent* is an exception from the general prohibition contained in the Statute of Monopolies. It is for all purposes to be regarded as property. It passes on bankruptcy as part of the assets of a bankrupt. On the death of a patentee duty is payable on it as part of the assets of the deceased, and I can see no justification in principle, nor has any authority been produced for holding that a grant of letters patent to two persons, their executors, administrators, and assigns creates anything more than a joint interest which will survive on the death of one of them, unless there has been a severance of the joint interest. An elaborate argument was addressed to me with a view of persuading me that survivorship between joint tenants is unreasonable, and cannot have been intended by the Crown. It is no doubt true that courts of equity have laid hold of slight circumstances to turn a joint tenancy into a tenancy in common, and there was at one time an idea that in equity all joint tenancies would be construed as tenancies in common. This, however, is clearly not so. I may refer to the judgment of Sir William Grant in *Aveling v. Knipe*. It must not be forgotten that it is at any time open to two joint owners to sever their joint interest and to create a tenancy in common. A patent can be owned by tenants in common : See *Smith v. London and North Western Ry. Co.* and *Steers v. Rogers*. It follows therefore that, in my judgment, Goulard's representative is not a proper party to the action in so far as it seeks an order for the assignment of the patents, inasmuch as the whole interest in the patents is vested in Gibbs as the survivor of the two joint patentees.<sup>13</sup>

The judgment of Cozens-Hardy in this case is a reasoned decision and was delivered on a point argued before him. Moreover, it is consonant with principle and should be considered to be of greater weight than that of *Dunnicliff v. Mailett*.<sup>14</sup>

<sup>11</sup> *Id.* at 230, 141 Eng. Rep. at 804.

<sup>12</sup> [1899] 2 Ch. 289.

<sup>13</sup> *Id.* at 299-300.

<sup>14</sup> The statement of Byles, J., seems to be accepted as authoritative in Canadian textbooks : See 1 FOX, CANADIAN PATENT LAW AND PRACTICE 607-08 (1948). But as in TERRELL and BLANCO WHITE, *op. cit. supra* note 9, the *Nat'l Soc'y* case does not appear to have come to note and the matter

It will be observed that there is nothing peculiar about a patent as a chose in action to warrant any different consideration. In the absence of an intent to the contrary in the legislation or in the instrument creating a joint ownership relationship, personalty is owned as joint tenants and realty is held as tenants in common.<sup>15</sup>

Four unities must be present to give rise to a joint tenancy. There must be unity of possession in the sense that each co-owner is as much entitled to possession of any part of the property as the other; unity of interest in that the co-owners hold but one estate; unity of title in that each joint tenant must claim his title under the same document; unity of time in that the interest of each joint tenant must arise at the same time.<sup>16</sup>

In a tenancy in common, there is only one unity, namely, unity of possession, but this does not mean that the holdings must be equal.

Interesting practical problems arise from the application of these principles. Patents are granted in accordance with section 46 of the Patent Act to the patentee and his legal representatives.<sup>17</sup> Section 2(e) defines legal representatives as follows: "‘legal representatives’ includes heirs, executors, administrators, guardians, curators, tutors, assigns and all other persons claiming through or under applicants for patents and patentees of inventions."

It is difficult to find any distinction from the grant construed in *Nat'l Soc'y for the Distribution of Elec. by Secondary Generators v. Gibbs*<sup>18</sup> which was to two persons "their executors, administrators and assigns." The only possible distinction is that the word "heirs" appears in the definition of legal representatives in section 2(e) of the Patent Act. However, it is difficult to see how the addition of that word to the words "executors and admin-

was not considered from first principles. See also POTTER, JOINT PATENTEEs, 63 TRANS. CHARTERED INSTITUTE PATENT AGENTS 145 (1944-45).

<sup>15</sup> *Payne v. Marshall*, 18 Ont. 488, 494 (C.P. 1890). 4 HALSBURY, LAWS OF ENGLAND 515, at § 1063 (3d ed. 1953). Generally the presumption of law favoured a joint tenancy as the law preferred a single owner rather than a number of owners, *Campbell v. Campbell*, 4 Bro. C.C. 15 (1792); *Morley v. Bird*, 3 Ves. Jun. 628, 30 Eng. Rep. 1192 (Ch. 1792); *Corbett d. Clymer v. Nicholls*, 2 L.M. & P. 87, 89 (Bail Ct. 1851).

Equity preferred the certainty of a tenancy in common, *Gould v. Kemp*, 2 Myl. & K. 304, 39 Eng. Rep. 959 (Ch. 1834); *Re Woolley*, [1903] 2 Ch. 206, 211. Therefore equity leans toward a tenancy in common and will tend to find where possible, words of severance in an instrument creating the tenancy.

<sup>16</sup> The four unities that distinguish a joint tenancy were considered in 2 BLACKSTONE, COMMENTORIES ON THE LAWS OF ENGLAND 180 (18th ed. 1829). The right of survivorship attaches to a joint tenancy of a chose in action with severance; 2 BLACKSTONE, *supra* at 399; *McLean v. Kennard*, L.R. 9 Ch. 336, 346 (1874); *Southcote v. Hoare*, 3 Tount. 87, 128 Eng. Rep. 36 (C.P. 1810).

<sup>17</sup> Section 46 of the Patent Act reads as follows:

Every patent granted under this Act shall contain the title or name of the invention, with a reference to the specification, and shall subject to the conditions in this Act prescribed, grant to the patentee and his legal representatives for the term therein mentioned, from the granting of the same, the exclusive right, privilege and liberty of making, constructing, using and vending to others to be used the said invention, subject to adjudication in respect thereof before any court of competent jurisdiction.

<sup>18</sup> [1899] 2 Ch. 289.

istrators" would give rise to a result different to that following from *Nat'l Soc'y*. In that event, in the absence of a different relationship being defined between joint grantees, they hold a patent as joint tenants with the right of survivorship.

If a patentee assigns his patent to *A* and *B* as co-owners, they hold as joint tenants with the right of survivorship unless the rights between them have been differently defined in writing. The four unities would exist in the ordinary course of such an assignment.

If the patentee assigns a partial interest to *B* there is no unity of time, and it would appear that a tenancy in common is created. But if the patentee conveys the patent to himself and *B* jointly, a joint tenancy would be created.

If a patentee conveys to *A*, *B* and *C* the entire patent right in equal interest jointly, creating a joint tenancy, and *A* subsequently conveys his interest to *D*, then *A* has severed the joint tenancy in relation to his interest. *D* then holds as a tenant in common one-third interest but *B* and *C* as between them hold as joint tenants.<sup>19</sup>

#### B. Rights of Joint Owners

Each of joint owners is entitled to work a patent and to retain the benefit of that working.<sup>20</sup> A co-owner of a patent may assign his share and the assignee has the same right to work the patent as the assignor of the interest. The co-owner can work the patent by an agent but not by an independent contractor.<sup>21</sup>

On the other hand it is the better opinion that a co-owner cannot divide his share without the consent of the other owner or owners by assigning part of it to another. A division of the right would increase the burden on the other owner or owners by enlarging the number of people entitled to work the patent.<sup>22</sup> In the case of *In re Horsely & Knighton's Patent*<sup>23</sup> it was held that neither of two joint patentees is entitled to cause to be made in the register any entry which purports to affect or prejudice the rights of the other. The same principle has been applied to licensing by co-owners of a patent.<sup>24</sup>

<sup>19</sup> 24 HALSBURY, LAWS OF ENGLAND 535, at § 1024 (2d ed. 1937). The destruction of one of the four unities of a joint tenancy creates a severance, *York v. Stone*, 1 Salk. 158, 91 Eng. Rep. 146 (Ch. 1709); *In re Pollard's Estate*, 3 DeG. J. & S. 541, 46 Eng. Rep. 746 (Ch. 1863); *Scharer v. Scharer*, 57 Sol. J. 60 (1912); *In re Wilks*, [1891] 3 Ch. 59, 63; *In re Schar*, [1951] 1 Ch. 281, 285. A tenancy in common arises from the severance of a joint tenancy, *Re Butler's Trusts*, 38 Ch. D. 286, 292 (1888).

<sup>20</sup> *Steers v. Rogers*, [1893] A.C. 232.

<sup>21</sup> *Howard & Bullough Ltd. v. Tweedales*, 12 R. Pat. Cas. 519 (Ch. 1895), 13 R. Pat. Cas. 211 (Ch. 1896).

<sup>22</sup> See generally *Lord Mountjoy's Case*, 1 A.N.D. 307, (1594); *Rathwell v. Rathwell*, 26 U.C.Q.B. 179, 186 (1866); *Mercer v. Liverpool, St. Helens & S. Lan. R.R.*, [1904] A.C. 461.

<sup>23</sup> L.R. 8 Eq. 475 (1869).

<sup>24</sup> In *Whitehead & Poole Ltd. v. Sir James Farmer & Sons*, 35 R. Pat. Cas. 241 (Ch. 1918), Mr. Justice Eve held that it was incumbent upon the defendants to establish that consent was received

There is authority for the proposition that one co-owner of a patent may sue without joining the other owner or owners.<sup>25</sup> It is doubtful whether such authorities should be relied upon in that they are contrary to fundamental principles applicable to choses in action. To enforce a chose in action in a common-law jurisdiction the entire ownership of the chose must be before the court to prevent a multiplicity of proceedings.<sup>26</sup>

### III. RIGHTS AND PROBLEMS CREATED BY ASSIGNMENT

It is considered as a general principle that the assignee of a patent becomes vested with all the rights of the assignor, but this broad expression of principle must be applied with some limitation.<sup>27</sup>

There is no implied warranty in an assignment of patent that the patent is valid.<sup>28</sup> If the assignment contains a covenant to pay royalties, then the assignee who is a party to the contract must pay such royalties whether or not the patent is later found invalid.<sup>29</sup>

An assignor is estopped from denying the validity of the patent assigned on the principle that a person cannot derogate from his own grant.<sup>30</sup> The estoppel arising from an assignment may be more effective than that which arises on giving a licence. In the absence of an agreement to the contrary,<sup>31</sup>

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from the other co-owner. This expression of the law is considered to be more authoritative than the obiter in *Wapshare Tube Co. v. Hyde Imperial Rubber Co.*, 18 R. Pat. Cas. 374 (C.A. 1901). See *WHITE, op. cit. supra* note 9, at 281 n.14. See also *Mathers v. Green*, L.R. 1 Ch. 29 (1865), where Lord Cranworth considered that it was not necessary for joint patentees to use the invention for the joint benefit of the joint owners. One joint owner was not considered to be accountable to the other in respect of his use of the patent.

<sup>25</sup> *Sheehan v. Gr. E. R.R.*, 16 Ch. D. 59 (1881); *Turner v. Bowman*, 42 R. Pat. Cas. 29 (Ch. 1925); *Walton v. Lavater*, 8 C.B.N.S. 162, 141 Eng. Rep. 1127 (1860); *Dunncliff v. Mallett*, *supra* note 10.

<sup>26</sup> The authorities on this point are considered later in this paper *infra* note 109. See also *Smith v. London & N.W.R.R.*, 2 E. & B. 69, 118 Eng. Rep. 694 (1853), where a right of action taken by joint tenants was considered to be a joint one.

<sup>27</sup> See e.g., *Re Beard & Scott's Patent*, 45 R. Pat. Cas. 31 (Ch. 1927), where it was held that the assignee had the right to obtain an extension of the term of the patent. *But see Burns & Russell v. Day & Campbell*, 31 Fox Pat. Cas. 36, 53 (Can. Ex. 1966) and *Union Carbide Co. v. Trans Canadian Feeds*, 32 Fox Pat. Cas. 17 (Can. Ex. 1966) where the limitation imposed was that an assignee cannot acquire the right to sue for past infringement.

<sup>28</sup> *Cutler v. Bower*, 11 Q.B. 973, 116 Eng. Rep. 736 (1848); *Smith v. Scott*, 6 C.B.N.S. 771, 141 Eng. Rep. 654 (1859); *Hall v. Condor*, 26 L.J.C.P. 138 (1857).

<sup>29</sup> *Trubenizing Process Corp. v. J. Forsyth*, [1942] Ont. 271 (Sup. Ct. & C.A.), 2 Can. Pat. R. 89 (Sup. Ct.), *aff'd*, 3 Can. Pat. R. *But see Burlotte v. Thys Co.*, 379 U.S. 29, at 32 (1964) where Mr. Justice Douglas for the majority said "that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*."

<sup>30</sup> *Indiana Mfg. Co. v. Smith*, 9 Can. Exch. 154, 158 (1904), 10 Can. Exch. 17, 25 (1905); *Franklin Hocking & Co. v. Franklin Hocking*, 4 R. Pat. Cas. 255 (Ch. 1887); *Cheerio Toys & Games Ltd. v. Dubiner*, [1966] Sup. Ct. 206; *Gonville v. Hay*, 21 R. Pat. Cas. (Ch. 1903); *Walton v. Lavater*, *supra* note 25; *Oldham v. Langmead*, discussed in *Hayne v. Maltby*, reproduced in *DAVIES, PATENT CASES* 156 (1816). If an assignor reserves to himself the right to deny validity he will not be estopped; *Formea Chemicals Ltd. v. Polymer Corp.*, [1965] 1 Ont. 373, 46 Can. Pat. R. 73 (Sup. Ct.). The same principle applies to a licensee, *B. & S. Massey Ltd. v. R. D. Ross & Son*, 32 R. Pat. Cas. 232 (Ct. Sess. Scot. 1915); *Mills v. Carson*, 10 R. Pat. Cas. 9, 17 (C.A. 1893); *Crossley v. Dixon*, 10 H.L. Cas. 293, 11 Eng. Rep. 1039 (1863).

<sup>31</sup> In the case of *Coyle v. Sproule*, 2 Can. Pat. R. 125 (1943), the agreement contained a specific covenant extending the obligation to respect the patent even after the licence was challenged.

the estoppel arising from a licence is coextensive in duration with the licence.<sup>32</sup> The licensee is estopped from contesting the validity of the patent but only to the extent necessary to the exercise of the licence.<sup>33</sup> The owner of a patent may, therefore, consider that an advantage can be obtained by assigning a patent imposing upon the assignee the obligation to pay royalties under sanction of reassignment to the assignor in the event of a breach of covenant by the assignee. On the reassignment, the original assignee becomes an assignor who is estopped from derogating from his grant. Had an ordinary licence been granted, the licensee would cease to be estopped on cancellation of the licence. The assignee obliged to pay royalties under penalty of giving a reassignment must ensure that the agreement contains a provision enabling him to contest validity of the patent.<sup>34</sup>

There are problems, however, facing an assignor who seeks to exact a covenant from an assignee. There is a danger that the covenant will be held invalid on the ground that it imposes a penalty. The covenant must be examined with care to ensure that it does not impose an unreasonable restraint of trade. There is the third problem that an affirmative covenant in an assignment creates a personal obligation binding only upon the assignee who is in privity of contract with the assignor and that it does not bind the subsequent assignee of the patent even if that subsequent assignee takes with notice of the covenant. These problems are considered in turn.

#### A. *Penalty*

If a patentee assigns a patent and exacts a covenant from the assignee to pay a specific sum by way of liquidated damages in respect of any particular breach of a covenant imposed on the assignee, care must be taken to see that the covenant is not found to be invalid on the ground that it imposes a penalty.<sup>35</sup>

If the assignment contains a covenant that the assignee will only sell the patented articles at a given price under condition that each breach of the covenant creates a liability of a given sum to the assignor, the covenant

<sup>32</sup> *Clark v. Adie* (no. 2), 2 App. Cas. 423, 435 (1877).

<sup>33</sup> *Fuel Economy Co. v. Murray*, 47 R. Pat. Cas. 346, 538 (Ch. 1930); *Clark v. Adie*, *supra* note 32, at 425; *Coyle v. Sproule*, *supra*, note 31, at 127

<sup>34</sup> The point arose in an interesting way in the *Formea Chemicals* case, *supra* note 30. The assignee of a patent pursuant to a clause in the assignment calling for royalty payments reassigned the patent to the assignor. The original assignor sued for infringement as the original assignee continued to make and sell a product alleged to fall within the claims. The original assignee attacked the validity of the patent pursuant to a clause permitting it so to do in the original assignment. The original assignor (patentee) denied the original assignee's right to attack the validity of the patent on the ground that it was in breach of the agreement for selling another product within the scope of the claims and in respect of which no payment of royalty had been made. The patentee failed on the facts. But the case illustrates the problems arising from an assignment rather than a licensing relationship.

<sup>35</sup> *Dunlop Pneumatic Tyre Co. v. New Garage and Motor Co.*, [1915] A.C. 79; *Canadian General Electric v. Canadian Rubber Co.*, [1952] Sup. Ct. 349.



may be held void as a penalty. A specified sum that represents a reasonable pre-estimate of the damage likely to be suffered by an assignor or licensor as the case may be would be enforced by the court as a payment of liquidated damages rather than a penalty. But if the court considers the specified sum to be harsh or unconscionable in relation to the breach, it would be void as calling for a penalty.

## B. *Restraint of Trade*

If a patentee, being an assignor, uses the assignment of a patent, or being a licensor, uses the licence of a patent as an instrument to control the market in an article, care must be exercised to ensure that there is no unreasonable restraint of trade.

A covenant exacted by an assignor or a licensor considered to be an unreasonable restraint of trade will not be enforced by the court. A covenant not to sell below a fixed price may be an unreasonable restraint between the parties.<sup>36</sup> Some time ago it was held that it is not unreasonable for an assignor to covenant to assign future inventions.<sup>37</sup> But, it would likely be held now that an assignment of future inventions by an employee made after the termination of his employment would be an unreasonable restraint.<sup>38</sup> Similarly, employment does not vest in the employer the prior inventions of an employee, nor does it create an automatic assignment of prior inventions.<sup>39</sup>

If the restraint of trade created by an assignment or a licence is *undue* then proceedings to declare the agreement void may be instituted in the Exchequer Court of Canada at the instance of the Attorney General of Canada.<sup>40</sup> This provision would be especially applicable if a contract relating

<sup>36</sup> *Wampole & Co. v. F. E. Karn Co.*, 11 Ont. L.R. 619 (Sup. Ct. Ex. Div. 1906); *Nordenfelt v. Maxim Nordenfelt Guns & Ammunition Co.*, [1894] A.C. 535, 565. A restrictive covenant must be reasonable from the standpoint of the respective parties and the public. It must not go beyond what is reasonable to protect the business of the party exacting the covenant as to area, time, and scope of subject matter. The courts tend to examine a restrictive covenant more critically where the relationship is one of master and servant rather than that of assignor of the goodwill of a business.

For a recent decision see *Colonial Broadcasting Systems Ltd. v. Russell*, 45 Can. Pat. R. 281 (Sup. Ct. Nfld. 1966), and see generally *Herbert Morris, Ltd. v. Saxelby*, [1916] 1 A.C. 688, 702; *Mason v. Provident Clothing & Supply Co.*, 82 L.J.K.B. 1153, 1157 (1913); *Attwood v. Lamont*, 90 L.J.K.B. 121, 128 (1920); *Maguire v. Northland Drug Co.*, [1935] Sup. Ct. 412, 416; *Allen Mfg. Co. v. Murphy*, 23 Ont. L.R. 467, 473 (1911); *Gordon v. Ferguson*, 46 Mar. Prov. 177, 30 D.L.R.2d 420, 38 Can. Pat. R. 1 (N.S. 1961), *appeal dismissed*, [1962] Sup. Ct. vii. See also note 118 *infra*.

<sup>37</sup> *Printing & Numerical Registering Co. v. Sampson*, L.R. 19 Eq. 462 (1875).

<sup>38</sup> *Elec. Transmission Ltd. v. Donnenberg*, 65 R. Pat. Cas. 439 (Ch. 1948).

<sup>39</sup> *Reliable Toy v. Collins*, [1950] Ont. 360, 13 Can. Pat. R. 53 (Sup. Ct.); *Alpertown Rubber Co. v. Manning*, 86 L.J. Ch. 377, 379 (1917) (where a covenant requiring prior knowledge to be assigned to the employer was considered unreasonable); *M. & S. Drapers v. Reynolds*, [1957] 1 Weekly L.R. 9 (C.A.).

<sup>40</sup> See, *Combines Investigation Act*, CAN. REV. STAT. c. 314, § 30 (1952).

The meaning of "unduly" as used in the conspiracy sections of the *Combines Investigation Act* was considered in the recent case of *R. v. R.K. Beamish Construction Co.*, [1966] 2 Ont. 867 (High Ct.). After a review of authorities, Mr. Justice Jessup applied the definition of Mr. Justice Cartwright

to a patent unduly prevents competition in an unpatented material. Patents which contain use claims and are owned by a manufacturer of the unpatented material are especially vulnerable. The owner of such a patent should, in my opinion, be prepared to grant licences to such persons as may wish to use a competitors unpatented material at a royalty that bears a real relation to the value of the patent. The value of the property right should be realistically assessed. If, however, the patent is used as an instrument to direct control of the unpatented material to the patentee, there is a real danger that section 30 of the Combines Act will be invoked by the Attorney General.

The conspiracy provisions of the Combines Investigation Act must also be considered where contracts are entered into that restrain trade. These provisions give rise to penal sanctions.<sup>41</sup>

C. *Assignments of a Patent Containing a Covenant by the Assignee in Favour of an Assignor*

A patentee who resorts to an assignment as an instrument to define his right to collect royalties can encounter problems where the assignee effects a further transfer of the patent. A personal covenant is one which is affirmative, that is to say it requires an outlay or an expense, or is personal to the covenantee, or collateral to the assignment.<sup>42</sup> A covenant by an assignee to pay royalties is such a covenant. A personal covenant creates a personal obligation binding only on the party who is in privity of contract with the assignor. Such a personal covenant does not bind a subsequent assignee of the covenantor even if that subsequent assignee takes with notice of the covenant.<sup>43</sup> The principle applicable where the covenant is a personal

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in *R. v. Howard Smith*, [1957] Sup. Ct. 403, as commented upon by Chief Justice McRuer in *R. v. Canadian Breweries Ltd.*, [1960] Ont. 601 (Sup. Ct.) to the effect that to be undue, the agreement must give the parties power to exercise control of the market in the articles in question.

<sup>41</sup> Section 32 of the Combines Investigation Act, CAN. REV. STAT. c. 34 (1952), defines the offence of conspiracy in relation to restraint of trade. See Henry, *Patents In Relation to the Combines Investigation Act*, 17 PATENT & TRADE MARK INSTITUTE BULLETIN 2 (1966).

The use of the monopoly created by a patent is especially excepted from the Combines Investigation Act by § 2(f). It is only when the patent monopoly is sought to be extended by agreement, whether an assignment or licence, that problems may arise under the act. Section 2(f) of the Combines Investigation Act reads:

"monopoly" means a situation where one or more persons either substantially or completely control throughout Canada or any area thereof the class or species of business in which they are engaged and have operated such business or are likely to operate it to the detriment or against the interest of the public, whether consumers, producers or others, but a situation shall not be deemed a monopoly within the meaning of this paragraph by reason only of the exercise of any right or enjoyment of any interest derived under the Patent Act, or any other Act of the Parliament of Canada.

<sup>42</sup> See *London & S.W.R.R. v. Gomm*, 20 Ch. D. 562, 580 (1882); *Barker v. Stickney*, [1919] 1 K.B. 121, 132 (C.A.). In the latter case, Bankes, L.J., held that no distinction existed between copyright and other forms of property and the case was decided on general legal principles that apply to patents.

<sup>43</sup> In *Barker v. Stickney*, *supra* note 42, the owner of copyright assigned the copyright to B who covenanted to pay royalties to A. B assigned the copyright to C who had notice of the obligation of B to pay royalties. It was held that A was unable to recover royalties from C. The principle that a covenant does not run with the sale of a chattel is dealt with later in this article; see note 79 *infra*, and the case of *Taddy v. Sterious*, [1904] 1 Ch. D. 354. Where in a case dealing

covenant was succinctly stated by Lord Justice Warrington, in *Barker v. Stickney*: "In my opinion the right of the appellant under the original assignment of January 11, 1912, rests in contract only. According to well-known principles of law, he cannot enforce against an assignee of his grantee the obligations entered into by his grantee in the original assignment. This is true in equity as well as law."<sup>44</sup> The assignor, to protect himself against the pitfall of this principle, must impose a vendor's lien or a charge on the property in the assignment of the patent, the instrument of sale. If the assignment does impose a lien or charge on the patent, then a subsequent assignee who takes with notice of such lien or charge takes subject to it. The covenantee can then enforce against the subsequent assignee those remedies that are available to one who holds a charge or lien if the subsequent assignee should fail to observe the covenant that gives rise to the charge or lien. In the *Barker* decision it was found that the assignment did not create a lien or charge upon the property, and the original owner of the copyright failed. But the principle that such a lien or charge would be effective to protect the original owner of the property was recognized by all three members of the court.

Even if the assignment is recorded and public notice is given of the personal covenant (such as a covenant to pay royalties) the purchaser of the patent who takes with knowledge of that covenant is not bound by it. Assignments of such a nature must be drawn with care to ensure that a vendor's lien or charge is created in favour of the assignor. The assignment should then be registered to provide notice to subsequent purchasers of the existence of the lien or charge as the case may be.

Up to this point, consideration has been given only to personal or affirmative covenants. There is also a class of covenants known as "restrictive covenants." A restrictive covenant is one that is negative and restricts the mode of using the property.<sup>45</sup> It would appear that a covenantee, in order

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with a patented article reliance was placed by the plaintiff on a covenant rather than the patent, see *McGruther v. Pitcher*, [1904] 2 Ch. 306. These cases applicable to the sale of a chattel were considered to be equally applicable to the sale of a chose in action by Scrutton, L.J., in *Barker v. Stickney*, *supra* at 132.

The *Barker* case was applied in *McBride v. Ontario Jockey Club*, 58 Ont. L.R. 97, [1926] 1 D.L.R. 414 (App. Div.), where it was held that a purchaser of shares of a public company from a vendor shareholder was not bound by a covenant between the vendor and the company whereby the vendor covenanted that he would abide by a by-law that no shares should be transferred to any person not already a shareholder until the company had had an opportunity to find a purchaser for such shares.

<sup>44</sup> [1919] 1 K.B. at 128.

<sup>45</sup> *Haywood v. Brunswick Permanent Bldg. Soc'y*, 51 L.J.Q.B. 73 (1882), dealt with the distinction between affirmative and restrictive covenants. It was a case dealing with land. But the covenant was one held not to run with the land and the case was decided upon ordinary equitable principles which are equally applicable to assignments of choses in action and in my opinion equally applicable to assignments of patents. In this case, land was granted by *A* to *B* in fee simple. *B*, the assignee, covenanted to pay rent, to erect buildings, and to repair. *A* assigned the benefit of the covenant to *C*, the plaintiff. *D* acquired the land and buildings from *B* and mortgaged them subject to the covenants to *E*, the defendant. *C* sued *E* on the covenant to repair. It was held that *E*, an assignee with notice of a collateral affirmative covenant, was not liable.

to establish that a covenant is a restrictive covenant, must also show that the covenantee has an interest in the property.<sup>46</sup>

In the case of restrictive covenants, the covenant may be enforced by the original assignor (covenantee) against a subsequent assignee of the property who takes with notice of the covenant. In *Haywood v. Brunswick Permanent Bldg. Soc'y*,<sup>47</sup> Lord Justice Lindley said :

There remains the question whether there is any doctrine of equity by which these defendants must be held liable to the plaintiff. The doctrine is laid down in *Tulk v. Moxhay* and *Cox v. Bishop*, and both those cases are different from the present. The former case shews that if a person buys land with notice of a restrictive covenant, he will be bound to perform it. Now restrictive covenants are those which, so far as they are enforced, can be observed without expenditure of money or outlay. In such a case such a covenant will be enforced even against a tenant from year to year, as is manifest from *Wilson v. Hart*; but with the exception of *Cooke v. Chilcott*, there is no authority to show that the Court of equity has ever extended the doctrine of *Tulk v. Moxhay* so as to enforce anything more than an abstention.<sup>48</sup>

However, the equitable principle in accordance with which restrictive covenants are enforced against the purchaser with notice is strictly confined to such covenants.<sup>49</sup>

If, therefore, the covenant given by an assignee is a bare or mere personal covenant, or if the covenant is collateral only to the assignment, or if the covenant is not a restrictive covenant within the meaning of that phrase,<sup>50</sup> that is to say, restricting the mode of using the patent, then the subsequent assignee will not be bound by the covenant even if he takes the assignment with notice of that covenant.<sup>51</sup> The exception exists where a vendor's lien or a charge is reserved in respect of the patent right in favour

<sup>46</sup> For the three requirements of a restrictive covenant, see, *ANGER & HONSBERGER, CANADIAN LAW OF REAL PROPERTY* 597 (1959).

<sup>47</sup> 51 L.J.Q.B. 73 (1882).

<sup>48</sup> *Id.* at 78.

<sup>49</sup> *Barker v. Stickney*, *supra* note 42.

<sup>50</sup> The cases are not all easy to reconcile with principle. Perhaps the case of *Wapshare Tube Co. v. Hyde Imperial Rubber Co.*, *supra* note 24, that arose on an appeal from an interlocutory order (and in respect of which the facts as reported are not fully reconciled with the reasons) can be explained as to approach on the ground that there was a restrictive covenant. The court considered the case from the standpoint of notice which on the basis of the latter *Barker* case would have been unnecessary. In that case *A* granted to *B*, the plaintiff, a non-exclusive licence and an option to purchase the patent. *A* covenanted not to grant any further licence or interest in the patent. *A* then assigned a one-quarter interest in the patent to *C* who licensed *D*, the defendant. *A* assigned his remaining interest to *E* who also licensed *D*. *B* sued *D* for infringement and *D* set up the licence. It was held that *B* failed as *C*, the licensor to *D*, had no notice of the covenant between *A* and *B*. But if the covenant was really personal, notice would have been unnecessary.

A second case that is of interest is that of *Nat'l Carbonising Co. v. British Coal Distillation Ltd.*, 54 R. Pat. Cas. 41 (C.A. 1937) where it was held that an assignee of the patent and the benefit of a licence under it obtained the benefit of improvements that the licensee was obliged to give the original patentee-licensor.

<sup>51</sup> See cases referred to in *Barker v. Stickney*, *supra* note 42; *Re Patent Carriage Co.*, L.R. 2 Eq. 349 (1866); *MacDonald Ltd. v. Eyles*, [1921] 1 Ch. 631.

of the covenant in the original assignment and the subsequent assignee has notice of such charge or lien at the time of the assignment to him.<sup>53</sup>

#### IV. REGISTRATION AND PRIORITIES

A host of problems arises under section 53 of the Patent Act, and it is a credit to the honesty of those dealing in patents that there has been so little litigation under the section.

It is made obligatory to register an assignment and an exclusive licence. No mention is made of non-exclusive licences. A sanction is provided by section 53(4) in respect of assignments in that the prior registered assignment prevails (apart from fraud).<sup>53</sup> No sanction is provided anywhere if a non-exclusive licensee fails to register. Is he deprived of his right to sue? Is registration constructive notice of an exclusive licence since it is obligatory to register it? Is registration notice of a non-exclusive licence even though there is no obligation to register? If it is notice, a licence should be registered. If it is not notice, then is the material date determining priorities the date of the acquisition of the interest? These and other questions are easier to state than to solve.

The case of *Colpitts v. Sherwood*<sup>54</sup> gives some guidance to some of the questions.<sup>55</sup> Notwithstanding that section 54(4) does not contain any words of exception, the court refused to allow a second assignee who was guilty of fraud to take advantage of the section and his prior registration of his interest in the patent. Equity acts in personam and in this case prevented the wrongdoer from taking advantage of his own fraud.

Interesting considerations arise based upon this decision. To what extent can one rely upon the register in effecting a purchase?

##### A. *Fraud in the Absolute Sale of a Patent*

Based upon an acceptance of the *Colpitts* decision, the following situations would probably lead to the following results where there have been two outright assignments of the patent:

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<sup>53</sup> In the case of covenants affecting the sale of land, the jurisprudence is settled that a covenantee will be allowed to enforce a restrictive covenant against a subsequent purchaser of land only if he has retained an interest in the land for the benefit of which the covenant runs. See *ANGER & HONSBARGER, op. cit. supra* note 46, at 597. Quære: Would this limitation also be imposed upon a covenantee who had disposed of all his interest in the personal property for which the benefit of the restrictive covenant applied?

<sup>54</sup> *Colpitts v. Sherwood*, [1927] 3 D.L.R. (Alta.), reversing [1927] 2 D.L.R. 670 (Alta. Sup. Ct.). This is probably not the law in view of *Burns v. Russell*, *supra* note 27. See note 93, *infra*.

<sup>55</sup> *Supra* note 53.

<sup>56</sup> See also *New Ixion Tyre & Cycle Co. v. Spilsbury*, [1898] 2 Ch. 484. In *Electric Chain Co. v. Art Metal Works Inc.*, [1933] Sup. Ct. 581, § 30(1) & (2) of the Patent Act, CAN. REV. STAT. 1927, c. 150, were considered by the Court and it was noted that only assignments were required to be registered and that the statute was silent as to the effect of non-registration. The present statute still leaves open many of the same comments.

1. *P* assigns a patent to *A*.  
*P* fraudulently assigns the patent to *B* who is innocent of the fraud.  
*B* registers before *A*.  
*B* clearly prevails.
2. *P* assigns a patent to *A*.  
*P* fraudulently assigns the patent to *B* who is a party to the fraud.  
*B* registers before *A*.  
 Then in an action for fraud *B* is prevented from taking advantage of his prior rights arising from the statute.<sup>56</sup>
3. *P* assigns a patent to *A*.  
*P* assigns the patent to *B* who participates in the fraud.  
*B* registers before *A*.  
*B* assigns the patent to *C* who is innocent of fraud.  
*C* registers after *B* but before *A*.

It would appear that section 53(4) of the Patent Act protects *C*. He was not guilty of fraud and the *Colpitts* decision would not apply.

On this view of the law section 53(4) has effected a change in the common law. At common law, where a contract relating to a chose in action has been procured by fraud, the deceived party can rescind the contract not only against the original party to the contract but also against an assignee from the original contractor even though the assignee purchases the chose in action without notice and in good faith.<sup>57</sup> This principle would apply at law apart from section 53(4) to purchases of a patent as well as purchases of the benefit of a patent licence.

*B. Distinction Between Purchase of a Patent or the Benefit to a Patent Licence on the One Hand and the Purchase of a Patented Article on the Other Where the Vendor is Guilty of Fraud*

A distinction must be drawn between an assignment of a chose in action (a patent or the benefit of a contract relating to a patent) and a contract for the sale of an article (the physical embodiment covered by a patent). The principle applicable to a chose in action (apart from statute such as a provision like section 53(4) of the Patent Act) is that the deceived party can rescind the contract not only against the party who practised the fraud, but also against any innocent person who purchases the chose in action from him.

Where there is a sale of a patented chattel, two separate results can flow depending on whether the contract is void or merely voidable. If a

<sup>56</sup> *Colpitts v. Sherwood*, *supra* note 53; *New Ixion Tyre & Cycle Co. v. Spillsbury*, *supra* note 55.

<sup>57</sup> See SALMOND & WILLIAMS, *CONTRACTS* 273, 473 (2d ed. 1945).

contract relating to the purchase and sale of a chattel is voidable, then a subsequent purchaser who takes title to it in good faith without notice acquires a good title. Salmond and Williams expressed the principle: "If X by fraud induces Y to sell and deliver a chattel to him and X thereafter resells the chattel to Z who purchases it in good faith without knowledge that it has been procured by his vendor under a voidable contract, Z obtains a perfectly good title to the chattel."<sup>58</sup>

On the other hand, if the contract relating to the purchase and sale of a chattel is void, then the original purchaser cannot pass good title to anyone. Therefore even if the purchaser of the chattel was entirely in good faith he cannot acquire a good title against the deceived party. Salmond and Williams stated the rule as follows: "If however Y the (assignor) vendor of the chattel could prove that the contract was void, then no property passed to the original purchaser. He cannot pass title to the subsequent purchaser."<sup>59</sup>

### C. *Equitable Assignment and the Equities*

An equitable assignment exists where there is an agreement to assign rather than a complete and absolute assignment.<sup>60</sup>

In equity (and therefore apart from section 53 of the Patent Act), an assignee of a patent takes title subject to the equities. Accordingly, a subsequent purchaser of a patent who has knowledge of a prior equitable assignment takes title subject to the prior equitable interest. But an assignee who purchases a patent for valuable consideration without notice of a prior equitable assignment takes free and clear of it.<sup>61</sup>

<sup>58</sup> *Id.* at 472.

<sup>59</sup> *Id.* at 454.

<sup>60</sup> By way of example, an equitable assignment arises where an employee agrees to enter into an assignment of inventions made by him. It also arises where there has been a failure to give an absolute assignment or notice of it as required by § 54 of the Conveyancing and Law of Property Act, ONT. REV. STAT. c. 60 (1960). See note 77, *infra*; DiGuilio v. Boland, [1958] Ont. 384. Performing Rights Soc'y v. London Theatre Varieties, [1924] A.C. 1, is an example of an equitable assignment of copyright.

<sup>61</sup> Wapshare Tube Co. v. Hyde Imperial Rubber Co., *supra* note 24; Nat'l Carbonising Co. v. British Coal Distillation Ltd., *supra* note 50, where Romer, L.J., held that an assignment could not defeat the rights of a licensee under a licence. He refused to accept the proposition that a licence only conferred an interest in equity and that it would not prevail against the title of the purchaser of the legal interest in the letters patent without notice of the licence.

*In re Morley's Patent*, 25 Beav. 581, 53 Eng. Rep. 759 (Ch. 1858), the patentee assigned a one-half interest in the patent to A. The patentee then assigned the whole interest in the patent to B, reciting that he had granted a licence to work the patent to A. B registered his assignment before A. It was held that B had constructive notice of A's rights (even though the rights were not accurately described) and B took subject to A's prior one-half interest.

*In Hassall v. Wright*, 40 L.J. Ch. 145 (1871), a patentee granted the sole right to manufacture under a patent to A who failed to register his licence. The patentee then gave the right to manufacture to B who failed to register his licence. A took action for an injunction against the patentee and B then registered his licence under § 35 of the Patent Law Amendment Act, 1852, 15 & 16 Vict. c. 83. The action was held to be maintainable against the patentee whose solicitor had failed to effect registration of the licence and against B who took his licence with full knowledge of the prior licence to A. If necessary the court would have held that the subsequent registration had relation back to the date of the agreement.

The ordinary principle in equity must be considered in relation to the statutory duty imposed upon the parties to an assignment by section 53(2) of the Patent Act rendering it obligatory to register the assignment.<sup>62</sup> The act does not limit the obligation to register and there is no reason to believe that it does not apply with equal force to legal assignments and equitable assignments. This equitable principle must also be considered in relation to the definition of priorities defined in section 53(4) of the Patent Act.

As stated above, in equity the purchaser of a legal title takes subject to a prior equitable assignment of which he had notice. Section 53(4) would give the appearance of a different rule in that it is worded in absolute terms to protect the first to register. If an equitable assignment is null and void against any subsequent assignee of the legal title who first registers whether or not the subsequent assignee had knowledge of the prior equitable assignment, then section 53(4) has effected a change in the ordinary principles that would apply in equity.

However, the *Colpitts* decision would, in respect of any participant in the fraud, prevent him from taking advantage of section 53(4). If this decision is enlarged to apply to equitable assignments, then it would be necessary to read a limitation into section 53(4). An enlargement of the decision to equitable interests would require the subsection to be read as follows :

Every assignment affecting a patent for invention, whether it be referable to this section or section 52, is null and void against any subsequent assignee who takes title (without notice of a prior assignment (whether legal or equitable)) unless such instrument is registered as hereinbefore prescribed, before the registration of the instrument under which such subsequent assignee claims.

The full implications of *Colpitts* and especially its applicability to equitable assignments have not been explored.

#### D. Licensees and Priorities

The position of a licensee<sup>63</sup> in relation to a subsequent purchaser of a patent gives rise to problems because of the inadequacies of section 53

<sup>62</sup> In the *New Ixion Tyre* decision, *supra* note 55, A, a patentee, agreed to assign the patent to a company, B, the plaintiff. B, the company, agreed to issue shares to A. A granted to C, the defendant, a licence under the patent. The licence was registered before any entry was made on the register of the agreement between A and B. A then assigned the patent to the company, B, in accordance with the agreement. The company sought a declaration that the licence was void against it. Held, the defendant C, the licensee, had express notice of the equitable agreement with B, the plaintiff. C therefore took the licence subject to the prior equitable interest of B. The subsequent assignment to the company was made pursuant to the original equitable agreement and the plaintiff was therefore entitled to the declaration that the licence was void against it. Chitty, L.J., considered that the failure to register an equitable assignment pursuant to § 23 of the Patents, Designs and Trade Marks Act, 1883, 46 & 47 Vict. c. 57, could result in an equitable assignee losing his title if someone were to buy the patent without notice.

<sup>63</sup> Unlike an assignee, a licensee does not take a proprietary interest in the patent; *Heap v. Hartley*, 6 R. Pat. Cas. 495, 501 (C.A. 1889); *The King v. Numont Ful Vue Corp.*, [1945] Can. Exch. 34, at 43. See also *Werderman v. Société Générale d'Electricité*, 19 Ch. D. 246 (1881).



of the Patent Act. As indicated earlier, section 53(2) of the Patent Act imposes a duty upon the parties to an exclusive licence relating to a patent to register the grant or conveyance defining it. There is no similar obligation relating to a non-exclusive licence.<sup>64</sup>

The determination of priorities under section 53(4) of the Patent Act only relates to assignments, and there is no mention of either exclusive or non-exclusive licences.

The relationship between the purchaser of a patent in respect of which a prior licence has been granted and the licensee is not completely clear. It has been suggested that the relationship should be considered on equitable principles in the same manner as if the patentee had granted an equitable assignment followed by a second assignment to a third party. Yet, there is authority for the proposition that the relationship between a subsequent assignee of a patent and a prior licensee is not dependent upon equitable principles at all. On this view of the matter the licensee's right subsists whether or not a subsequent purchaser of the patent has notice.

Terrell gives expression to the view that the matter must be determined on equitable grounds.<sup>65</sup> On the other hand, Lord Justice Romer in the case of *Nat'l Carbonising Co. v. British Coal Distillation Ltd.*<sup>66</sup> took the position that the purchaser of the legal interest in a patent must take it subject to any pre-existing licence whether or not he had notice of the existence of that licence. He believed that a licence is not an instrument that conveys an equitable interest and that the ordinary equitable principles are not applicable. He said :

The next thing to be observed is that a patentee is fully entitled to assign his rights under the Letters Patent to another and that this must be deemed to have been known to the parties. Such an assignment could not, of course, defeat the rights of the licensee under the licence. It was suggested in the argument for the Respondents that the licence only conferred some interest in

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<sup>64</sup> There is a sanction created by the Patent Act for failure to register an assignment. Section 53(4) could operate to deprive an earlier assignee of his title. However, there is no sanction in § 53(4) or elsewhere in the Patent Act for failure to register an exclusive licence since § 53(4) does not include any reference to licences. It has been argued that an exclusive licensee who fails to register should not be entitled to institute suit until after registration has been effected. But, having regard to *Burns & Russell*, *supra* note 27, this sanction does not appear to be open. See also the case of *Wilkinson Sword (Canada) Ltd. v. Arthur Judah* (unreported August, 1966), for comments on a similar section in the Trade Marks Act relating to the right of an unregistered owner to institute suit. As to the right of an exclusive licensee (and possibly even a non-exclusive licensee) to sue, joining the legal owner, as a person "claiming under" a patentee see *Fiberglas Canada Ltd. v. Spun Rockwools*, 64 R. Pat. Cas. 54 (P.C. Can. 1947). See also *Electric Chain Co. v. Art Metal Works Inc.*, *supra* note 55, which, however, was decided before the enactment of the particular wording of § 57 of the Patent Act.

<sup>65</sup> TERRELL, *LAW OF PATENTS* 245 (11th ed. 1965) reads :

The ordinary rules as to "notice" apply to equities in respect of a patent in like manner as any other personal property (Sec. 74(4) of the Patents Act, 1949). Thus the assignee is bound by previous licences of which he had notice at the date of the assignment but is apparently not affected by others, save, of course, in respect of articles sold in pursuance of the licence prior to the assignment.

<sup>66</sup> 54 R. Pat. Cas. 41.

equity and that it would not prevail against the title of a purchaser of the legal interest in the Letters Patent without notice of the licence. No authority was cited that in any way supports this extraordinary proposition and, in my opinion, it is without any foundation. It is said in *Hindmarch on Patents* that a licence to use an invention comprised in a patent is in fact a grant of a right by the patentee to the licensee and, until the present case, I have never heard any suggestion to the contrary. But though the licence would remain in full force after an assignment of the Patent the licensee would only continue to exercise it upon the terms as to payment of royalties and otherwise that are contained in it. This being so, it would seem plain that, if the patentee is to be regarded as having the power of assigning the Patents and can only assign them subject to the rights of the licensee, he must also be regarded as having the power at the same time to assign the benefits accruing to him under the licence.<sup>67</sup>

In view of the fact that section 53 of the Patent Act makes no reference to non-exclusive licences, it would appear that the decision of Lord Justice Romer in the *Nat'l Carbonising* case would apply in Canada. There is no obligation to register a non-exclusive licence and section 53(4), which defines priorities, does not refer to licences. On the basis of this decision, there is, therefore, no need to effect registration of a non-exclusive licence.

The situation as to exclusive licences is somewhat more difficult having regard to the fact that there is a duty to register an exclusive licence under section 53(2). On the other hand, there is no sanction provided in the act for a failure to register an exclusive licence. Section 53(4) only defines priorities in relation to assignments. In view of the fact that there is no sanction provided in the act for a failure to register an exclusive licence, it is arguable, therefore, that an exclusive licensee is in the same position as a non-exclusive licensee. On this basis, the purchaser of a patent takes subject to the exclusive licence. In other words, instead of obtaining the full right to the patent, he only stands in the shoes of the assignor and his right may be limited to the recovery of royalties.

Again, assuming *Nat'l Carbonising* is correct and that the failure to register an exclusive licence does not alter the applicability of that decision, it is interesting to consider the relationship of two exclusive licensees. It would appear that the first exclusive licensee would prevail; he would be able to maintain an infringement action against the second exclusive licensee who would then be required to seek his remedy against the fraudulent licensor.

<sup>67</sup> 54 R. Pat. Cas. at 56. Contrast the case with the line of authority reviewed in the *Barker* case, *supra* note 42. In the instant case the patent is being purchased from A subject to a licence held by B. B must therefore pay royalties to the assignee of the patent. In the *Barker* case, A has sold the patent to B subject to a covenant back to A. C purchases the patent from B and is not liable to A in respect of the covenant to pay royalties since the covenant is purely an affirmative covenant and there is no privity of contract between A and C.

BLANCO WHITE, *PATENTS FOR INVENTIONS* 283 (3d ed. 1962) criticizes this decision, but in principle it would appear to me that even though the expression may have been obiter the principle and reasoning of the obiter to the decision has great force.

It is very apparent that section 53 is inadequate as legislation to define the rights of assignees, exclusive licensees or non-exclusive licensees. Legislative clarification is needed.

#### E. *Right to Assign a Claim for Past Infringement*

The right of a patentee to assign a claim for damages for infringing acts that occurred prior to the assignment was raised and dealt with in two recent cases in the Exchequer Court of Canada. Both President Jaccett and Mr. Justice Gibson held that an assignment of a right to claim and recover damages for infringing acts that pre-dated the assignment made in association with an assignment of the patent was not effective to enable the assignee to maintain the action for damages for past infringement. Both cases proceeded upon the principle that one cannot assign a right to recover unliquidated damages for a tort.<sup>68</sup> There is no doubt that a bare right of action cannot be assigned but there is considerable doubt whether an assignment of a claim for past damages for patent infringement accompanied by an assignment of the patent falls within the rule or an exception to it. A decision of the Supreme Court of Canada on the point will be awaited with interest.

In *Burns & Russell*,<sup>69</sup> the patentee included in an assignment of the patent to the plaintiff an assignment of the right to claim and recover damages for past acts of infringement of that patent.<sup>70</sup>

Mr. Justice Gibson, in dealing with this aspect of the matter, said :

[T]his assignment, save and except for the clause "together with the right to claim and recover damages or profits with respect to past infringements" is clear and unequivocal and purports to confer absolute title on the plaintiff. I say all, except for this clause, which is meaningless, because this clause purports to assign the right to sue for past infringement which is a cause of action in tort. It is not legally possible at common law to assign a tort and there is no provision in the *Patent Act* which changes the common law in respect thereto.<sup>71</sup>

In *Union Carbide Canada Ltd. v. Trans Canadian Feeds Ltd.*,<sup>72</sup> the above expression of the law was approved by the president of the Exchequer Court for all provinces of Canada except Quebec where under the civil law such claims are assignable.

<sup>68</sup> For examples of where the principle was applied to a claim in tort see, *DeFries v. Milne*, [1913] 1 Ch. 98; *Wood v. Downes*, 18 Ves. Sr. 120, 34 Eng. Rep. 263 (Ch. 1811).

<sup>69</sup> 31 Fox Pat. Cas. 36 (Can. Ex. 1966).

<sup>70</sup> The granting clause, reproduced in part in 31 Fox Pat. Cas. at 53, reads: "by these presents hereby sells, assigns and transfers unto the said Burns & Russell of Canada Limited, its successors and assigns, title and interest in and to Canadian Letters Patent No. 523,407 ... together with the right to claim and recover damages or profits with respect to past infringements."

<sup>71</sup> *Id.* at 53.

<sup>72</sup> 32 Fox Pat. Cas. 17 (Can. Ex. 1966).

The president rejected an argument that section 57(1)<sup>73</sup> applied to the matter before him by stating: "It [section 57(1)] does not confer on a person claiming under the patentee a right to damages sustained by the patentee."<sup>74</sup> He then concluded: "My conclusion is therefore that the plaintiff has no right to claim for infringements committed before it became owner of the patent on April 30, 1962."<sup>75</sup>

A distinction must be made between an action based upon a chose in action itself (a contract or a patent) and a claim for damages in respect of a particular breach of the chose in action. The distinction was considered in *Torkington v. Magee*<sup>76</sup> by Mr. Justice Channel in commenting upon *May v. Lane*.<sup>77</sup> A chose in action was defined as a legal expression used to describe all personal rights of property which can only be enforced by action. A mere right of action such as a claim for damages in respect of a particular breach of contract was not recognized as a chose in action that was assignable, whereas the benefit of the contract itself was assignable.<sup>78</sup> A mere right to litigate is not assignable but the subject matter that gives rise to that right is assignable as a chose in action.

Applying this distinction to patents, it is clear that a patent is a chose in action that is assignable by statute. However, the bare right to sue for past infringement would be tantamount to an assignment of a mere right to litigate and is not separably assignable, the patentee retaining the patent.

The next matter to be considered is whether the right to sue for damages for past infringement can be assigned with the patent itself. Both on principle and on the authority of cases applicable to other types of choses in action

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<sup>73</sup> Section 57 of the Patent Act reads: "(1) Any person who infringes a patent is liable to the patentee and to all persons claiming under him for all damages sustained by the patentee or by any such person, by reason of such infringement. (2) Unless otherwise expressly provided, the patentee shall be or be made a party to any action for the recovery of such damages."

<sup>74</sup> 32 Fox Pat. Cas. at 34.

<sup>75</sup> *Ibid.*

<sup>76</sup> [1902] 1 K.B. 427.

<sup>77</sup> [1902] 1 K.B. at 434, Channel J., quoting from *May v. Lane*, 64 L.J.Q.B. 236, said:

Lord Justice Rigby, however, adds "a legal chose in action is something which is not in possession, but which must be sued for in order to recover possession of it. It does not include a right of action" (by that I think he means a mere right of action). "Such as for instance, a right to recover damages for breach of a contract, or a legal right to recover damages arising out of an assault, for if the argument on behalf of the plaintiff be correct, such a right would be assignable and this section of the Judicature Act would materially affect the law of champerty and maintenance"... I think Lord Justice Rigby did not mean that an assignee of a contract could never sue for damages for breach of it, but merely that, when breach of contract had occurred in respect of which the original party to the contract could sue for damages he could not assign those damages so as to enable the assignee to sue.

<sup>78</sup> In *Tolhurst v. Associated Portland Cement Mfrs.*, [1903] A.C. 414, 420 Lord Macnaghten said: "It is well settled that as a general rule the benefit of a contract is assignable in equity and may be enforced by the assignee." This is expressed as a general rule because the benefits of contracts involving skill or confidence such as between an author and a publisher are not assignable, *Stevens v. Benning*, 6 DeG. M. & G. 223, 43 Eng. Rep. 1218 (Ch. 1855) and *British Waggon v. Lea*, 5 Q.B.D. 149 (1880).

*Sullivan v. Gray*, [1942] Ont. Weekly N. 329 (High. Ct.), is a further example of an unassignable contract because of the personal nature of the obligation.

there is good reason to consider that such an assignment should be considered valid as an exception to the rule that one may not assign a mere right to litigate.

In *Dawson v. Great No. & City Ry.*,<sup>79</sup> the basis of the rule that a mere right to litigate could not be assigned was stated to be that it was obnoxious to the law relating to champerty and maintenance.<sup>80</sup> There was, therefore, an invalid assignment at law and in equity. Public policy dictates that there should be no encouragement given to litigation by allowing persons unrelated to the chose in action to enforce those rights that the owner of the chose in action is not prepared to enforce.

Lord Justice Stirling stated in *Dawson* :

An assignment of a mere right of litigation is bad : *Prosser v. Edmonds*; but an assignment of property is valid, even although that property may be incapable of being recovered without litigation : see *Dickinson v. Burrell*. It was said in argument that the right which Blake purported to assign was simply a claim to damages for a wrongful act and therefore incapable of assignment. With this contention we do not agree . . . . Even if the assignment be regarded apart from the conveyance of the lands and buildings comprised in the deed of August 17, 1901, it appears to us that it is good; but we think that great weight must be given to the circumstance that this assignment is incidental and subsidiary to that conveyance, and is part of a bona fide transaction the object of which was to transfer to the plaintiff the property of Blake, with all the incidents which attached to it in his hands. Such a transaction seems very far removed from being a transfer of a mere right of litigation. This conclusion appears to be in accordance with the decision in *Williams v. Protheroe* where it was held in the Exchequer Chamber that there was no champerty in an agreement containing provisions for the purpose of enabling the bona fide purchaser of an estate to recover for rent due or injuries done to it previously to the purchase.<sup>81</sup>

In *Ellis v. Torrington*<sup>82</sup> the right to claim for past breaches of a covenant to repair was considered to have been validly assigned to a person who by separate instrument acquired from a different person at a different time the fee simple (or property right) to the property in respect of which the claim arose. The right to claim damages for past breaches of the covenant was being asserted by the owner of the property at the time of the action. Lord Justice Bankes<sup>83</sup> approved the following words of Mr. Justice Parker in *Glegg v. Bromley* :<sup>84</sup>

I have looked at a good many authorities on that point, and I am satisfied that the real reason why equity did not allow the assignment of a bare

<sup>79</sup> [1905] 1 K.B. 260 (C.A.). See also *Torkington v. Magee*, *supra* note 75.

<sup>80</sup> In *Dawson v. Great No. & City Ry.*, *supra* note 79, the right to claim damages for injurious affection was assigned. The assignee also acquired the property in respect of which the right to compensation arose.

<sup>81</sup> *Id.* at 271.

<sup>82</sup> [1920] 1 K.B. 399 (C.A.).

<sup>83</sup> *Id.* at 406.

<sup>84</sup> [1912] 3 K.B. 474 (C.A.).

right of action, whether legal or equitable, was on the ground that it savoured of or was likely to lead to maintenance. There is no doubt in the cases about the rule, and there is no doubt in the cases with regard to the exception, but difficulties often arose in deciding whether a particular right was within the exception or was within the rule.<sup>85</sup>

Lord Justice Bankes then proceeds in his own words : "The rule then that a bare right of action for damages is not assignable (which Parker J. treats as an exception to a wider rule) rests on the principle that the law will not recognize any transaction savouring of maintenance or champerty. The next question is what is the exception to this rule ? The exception is where the assignee can establish that he has an interest in the suit."<sup>86</sup>

After referring to *Williams v. Protheroe*<sup>87</sup> and the *Dawson* case, he continued :

In my opinion the assignment in the present case was in the words of Stirling L.J. "incidental and subsidiary" to the conveyance of the property. It is true that in this case the conveyance of the property and the assignment of the right of action were made by different persons, but I fail to see what difference in principle that makes when the test is whether the transaction incurs or avoids the charge of maintenance or champerty . . . . In my opinion Sargant J. was perfectly right when he said that the rights of action for breaches of covenant by the appellant were sufficiently connected with the enjoyment of the property to escape being bare rights of action . . .<sup>88</sup>

The principle of these cases is equally applicable to an assignment of a patent as the property right and the assignment of the right to recover for past acts of infringement as a right incidental to that property. The reason for the rule is not offended. There is no champerty or maintenance where the property right and the right to recover damages for past acts of infringement are assigned to the same person.

It has been held that the right to sue for past acts of infringement must be specifically assigned, as the right does not become transferred automatically with the assignment of the patent.<sup>89</sup> If the patentee assigns the patent without including a right to sue for past infringement (or the two recent decisions of the Exchequer Court are correct) then the bare right to sue for such past infringement is retained by the assignor. Three possibilities arise :

(1) The bare right can be separately enforced by the assignor since it does not savour of champerty if he is prepared to enforce it.

<sup>85</sup> *Id.* at 489.

<sup>86</sup> [1920] 1 K.B. at 406.

<sup>87</sup> 5 Bing. 309, 130 Eng. Rep. 1080 (Ex. 1829).

<sup>88</sup> [1920] 1 K.B. at 406.

<sup>89</sup> Tomlin, J., in *Wilderman v. F.W. Berk & Co.*, 42 R. Pat. Cas. 79, at 90 (1925) said : "Further, I do not think that there is any language in the Divesting Order wide enough to transfer to the Plaintiff a right of action accrued to the Custodian after the Vesting Order, and while he was the owner of the Patent. An assignment of the Patent, statutory or otherwise, would not per se carry an accrued right of action for infringement . . ."

Early United States cases also expressed the conclusion that an assignment of a patent does not transfer a claim for past infringement unless expressly stated, *May v. Juneau*, 30 Fed. 241 (C.C.W.D. Wis. 1887), *aff'd* 137 U.S. 408.

(2) The right must be enforced in a single action with the assignee of the patent.

(3) The right being a bare right to litigate divorced from the property right is a right in gross that cannot be enforced.

In principle it would seem that the first of these three positions would prevail but it might be the course of wisdom to put into practice the second proposition to avoid a multiplicity of proceedings. The *Ellis* case would seem to rule out the third proposition.

In summary, apart from the two recent Exchequer Court cases, it would appear in principle in the common-law provinces :

1. A patent is separately assignable.
2. A right to claim damages for past infringement is not separately assignable to a person who does not own the patent.
3. A right to claim damages for past infringement is assignable in conjunction with an assignment of the patent or to a person who owns the patent.
4. The assignor of a patent who retains the bare right to recover damages for past acts of infringement can enforce that right, but perhaps should do so in a single action with the then owner of the patent.
5. If it is intended to assign a right to sue for past acts of infringement, it should be specifically assigned in writing.
6. The problem does not arise in respect of assignments where the proper law of the contract is that of the civil law in Quebec or the law of Scotland.<sup>90</sup>

On the basis of the two Exchequer Court cases, however, propositions two and three would read simply that a right to claim for past infringement cannot be validly made.<sup>91</sup>

#### F. *Unregistered Assignments*

The decision of Mr. Justice Gibson in *Burns & Russell* raises another interesting point applicable to assignments. The plaintiff was the registered owner of the patent in suit under a registered assignment that was absolute in form and conveyed the entire right, title and interest in the patent. The assignor and the plaintiff had entered into a contemporaneous agreement that was not registered. The granting clause of the second contract of assign-

<sup>90</sup> *United Horse Shoe & Nail Co. v. Stewart*, 5 R. Pat. Cas. 260, 269 (1888); *Union Carbide v. Trans Canadian Feeds*, 32 Fox Pat. Cas. 17, 34 (Can. Ex. 1966).

<sup>91</sup> The courts today tend to reject the old and strict common-law rule that assignments of a claim to damages is unassignable as champertous, *DiGullo v. Boland*, *supra* note 60, at 399.

ment was "subject to the reservation by . . . [the assignor] of all rights and benefits, including the right . . . ." Mr. Justice Gibson, after quoting the above extract from the unregistered assignment, held that "on a true interpretation of the meaning of this contract of assignment the plaintiff has obtained no title or right whatsoever to the patent in suit."<sup>92</sup>

The court looked beyond the register to determine the status of the registered owner to maintain the action. The situation in Canada, therefore, represents an interesting contrast to that which prevails in England under a different statute.

In *Martin & the Miles Martin Pen Coy. Ltd. v. Scrib Ltd.*,<sup>93</sup> the Court of Appeal in England refused to consider an unregistered instrument as relevant to the right to maintain an action for infringement. The decision was based upon the effect of sections 73 and 74 of the English Patents Act, 1949.<sup>94</sup>

Lord Justice Jenkins, after considering the sections, stated :

These provisions, in my judgment, really make it plain beyond argument that the policy of the Act is that, in order to ensure some certainty and finality as regards title to patents, a Register is to be kept, and vis-à-vis the outside world the registered proprietor is to be regarded as the owner of the patent, subject to any interest which may have been carved out of his interest and duly noted on the register. The registered proprietor, in my judgment, therefore, has, by virtue of registration, and so long as the registration stands, the requisite interest to start an action for infringement; and indeed he or somebody else with an adequate registered entry are the only persons who can maintain such an action.<sup>95</sup>

The different statutory provisions in Canada and England have led to diametrically opposite results. In Canada the register is not conclusive; in England, one may rely upon the register.<sup>96</sup>

A consideration of the different statutes shows the reason for the different result and demonstrates why one examines with care English decisions based on the 1949 act.

<sup>92</sup> 31 Fox Pat. Cas. at 53.

<sup>93</sup> 67 R. Pat. Cas. 127 (C.A. 1950).

<sup>94</sup> Patent Act, 1949, 12 & 13 Geo. 6, c. 87.

<sup>95</sup> 67 R. Pat. Cas. at 133.

A mortgagor of a patent is entitled to sue on the patent without joining a mortgagee who has registered his mortgage. In equity a mortgage is merely security for the debt. The law applicable to patents does not differ from the general law. Although *Von Gelder Apsimon & Co. v. Sowerby Bridge United District Flour Soc'y*, 7 R. Pat. Cas. 208 (C.A. 1890) was decided when §§ 46 & 87 of the Patents, Designs and Trade Marks Act, 1883, 46 & 47 Vict. c. 57, were in force, the case was decided on general principles of law rather than specific statutory provisions and ought to apply in common-law provinces.

<sup>96</sup> In *Chollet v. Hoffman*, 26 L.J.Q.B. 249 (1857), the effect of registration of assignments was considered in relation to § 35 of the Patent Law Amendment Act, 1852, 15 & 16 Vict. c. 83, which provided : "until the entry of the assignment has been made in the Register of Proprietors, the grantee of the letters patent shall be deemed and taken to be the sole and exclusive proprietor or proprietors of such letters patent and of all licenses and privileges thereby granted." It was held that the assignee who had not registered his assignment had no status to pursue an action for infringement.



Patentee is defined in section 101 of the English Act : "Patentee means the person or persons for the time being *entered on the register* of patents as grantee or proprietor of the patent."<sup>97</sup>

This definition must be read with the provisions of sections 73 and 74 of the 1949 English Patents Act and the wide powers given to the person registered as owner of the patent. It should be noted, however, that although the register governs in relation to third parties, section 74(4) contains a proviso that enables the equities applicable to personal property generally to be effective in relation to patents.

In Canada section 2(h) of the Patent Act defines patentee : "Patentee means the person for the time being entitled to the benefit of a patent for invention." By section 57 of the Canadian Patent Act the patentee is entitled to maintain an action for infringement.

In England the patentee and his right to sue on the patent are defined in relation to registration. In Canada they are not. In England the defendant in an action for infringement cannot inquire beyond the registered interests. In Canada, however, as illustrated in the *Burns & Russell* decision, an inquiry into unregistered interests is relevant.

#### G. *Assignment of the Benefit of a Contract Relating to a Patent*

In *Tolhurst v. Associated Portland Cement Mfrs.*,<sup>98</sup> the general principle that the benefit of a contract may be assigned was defined by the House of Lords.

However, the assignee is still required to give consideration to the manner in which his action is framed to ensure that it is properly constituted. The assignor may be a necessary party to the action. This is still the case in Ontario in a limited set of circumstances notwithstanding the provisions of section 54 of the Conveyancing and Law of Property Act<sup>99</sup> that deals with

<sup>97</sup> (Emphasis added).

<sup>98</sup> [1903] A.C. 414.

<sup>99</sup> ONT. REV. STAT. c. 66, § 54 (1960) provides :

(1) Any absolute assignment made on or after the 31st day of December, 1897, by writing under the hand of the assignor, not purporting to be by way of charge only, or any debt or other legal chose in action of which express notice in writing has been given to the debtor, trustee or other person from whom the assignor would have been entitled to receive or claim such debt or chose in action is effectual in law, subject to all equities that would have been entitled to priority over the right of the assignee if this section had not been enacted, to pass and transfer the legal right to such debt or chose in action from the date of such notice, and all legal and other remedies for the same and the power to give a good discharge for the same without the concurrence of the assignor.

(2) In the case of an assignment of a debt or other chose in action, if the debtor trustee or other person liable in respect of the debt or chose in action has had notice that such assignment is disputed by the assignor or anyone claiming under him, or of any other opposing or conflicting claims to such debt or chose in action, he is entitled, if he thinks fit, to call upon the several persons making claim thereto to inter-plead concerning the same, or he may, if he thinks fit, pay the same into the Supreme Court under and in conformity with the provisions of law for the relief of trustees.

machinery applicable to the enforcement of rights in a chose in action by an assignee of it.<sup>100</sup> The assignor is still a necessary party in certain situations in Ontario notwithstanding the broad language of rule 89 of the Rules of Practice of the Supreme Court of Ontario that reads: "An assignee of a chose in action may sue in respect thereof without making the assignor a party."<sup>101</sup>

There may be four situations applicable to an assignment of a chose in action:

1. A legal assignment of a legal chose in action;
2. A legal assignment of an equitable chose in action;
3. An equitable assignment of an equitable chose in action;
4. An equitable assignment of a legal chose in action.

A legal chose in action is one that would have been enforced in one of the common-law courts prior to the enactment of the Judicature Act, such as a patent or a contractual right. An equitable chose in action is one that would have been enforced in the Court of Chancery prior to the enactment of the Judicature Act, such as a trust, or the equity of redemption of a mortgage.

A legal assignment is an absolute assignment. In Ontario it is one that meets the requirements of section 54 of the Conveyancing and Law of Property Act.

An equitable assignment is an assignment in respect of which no notice has been given under section 54 of the Conveyancing and Law of Property Act prior to institution of action or one where there has been an agreement to convey rather than a conveyance.

#### H. *Parties to Contracts and Actions*

Where there is an equitable assignment of a legal chose in action the assignor is a necessary party to the action. If, therefore, the benefit of a contract whether in the nature of an assignment, licence or ordinary agreement has been assigned, in Ontario, and notice has not been given of the assignment as called for by section 54 of the Conveyancing and Law of Property Act, the assignor is still a necessary party to the action.

In *DiGuilo v. Boland*,<sup>102</sup> the principles of assignments were considered at length by the late Mr. Justice Morden: "Where the assignment of a legal

<sup>100</sup> *Slattery v. Slattery*, [1945] Ont. 811.

<sup>101</sup> CHITTY, ONTARIO ANNUAL PRACTICE 141 (1966).

<sup>102</sup> *Supra* note 60.

*chose* is equitable and is not absolute, the assignor is still a necessary party in England, and as I shall later point out, in Ontario also."<sup>103</sup>

The case of *Performing Right Soc'y v. London Theatre of Varieties Ltd.*<sup>104</sup> holds that there is nothing special about patents or copyright to distinguish the general principle that in a suit by the equitable owner of copyright the legal owner is a necessary party. Lord Phillimore stated :

It is contended by counsel for the appellants that there is an exception to this rule in cases where copyright and possibly also patent rights have been pirated; and this contention is founded upon certain decisions long anterior to the present Copyright Act and indeed earlier than the Judicature Acts and the fusion of law and equity.

These cases are somewhat difficult to deal with ... but I think that they can be brought into line with the general principle which I have already stated.<sup>105</sup>

The equitable owner of a patent or a copyright must therefore join the legal owner to maintain the action apart from any statutory provision to the contrary.

In the *Boland* case, and in *Canning v. Avigdor*,<sup>106</sup> that applied it, leave was granted to the plaintiff to add the assignor as a party on the general principle that an action should not fail for want of a necessary party.<sup>107</sup>

The requirement that the assignor be added as a necessary party still has practical significance. It may operate to require a substantial assignor to join with an impecunious assignee and risk liability for costs.

There is a second principle relating to the institution of proceedings that must be considered where an owner of a *chose* in action divides it by assigning partial interests in it to others. The situation can and has arisen where the owner of a patent may assign a patent exacting a covenant from the assignee to pay royalties or compensation of a fixed amount.<sup>108</sup> The benefit of the covenant may then be assigned to several persons in varying interests so that the benefit of the contract is jointly owned. If there is a breach by the covenantor, then all persons having an interest in the action against him must institute the proceedings. In other words, one-hundred per cent of the interest in the *chose* in action must take action to enforce it.

<sup>103</sup> *Id.* at 397.

<sup>104</sup> [1924] A.C. 1.

<sup>105</sup> *Id.* at 32-33.

<sup>106</sup> [1961] Ont. Weekly N. 59.

<sup>107</sup> *Byrne v. Brown*, 22 Q.B.D. 657, 666 (1889); *Montgomery v. Foy*, [1859] 2 Q.B.D. 321, 324; *Von Gelder Apsimon & Co. v. Sowerby Bridge United District Flour Soc'y*, *supra* note 95; *Amon v. Raphael Truck*, [1856] 1 Q.B.D. 357; *Omark Indust. v. Gouger Saw Chalm*, 40 Can. Pat. R. 105 (Can. Ex. 1960); *Canning v. Avigdor*, *supra* note 106.

<sup>108</sup> See note 51 *supra*.

In *Beatty v. Best*,<sup>109</sup> Mr. Justice Idington said : "The statute enabling an assignee of a chose in action to use, in my opinion, never was intended to enable the possessor of a valuable chose in action to issue a kind of currency, as it were, by dividing up his right into little bits and distributing them amongst his friends, and giving each of them a chance to worry and annoy the debtor."<sup>110</sup>

The principle was applied in Ontario in *Graner v. Ins. Co. of No. America*.<sup>111</sup>

Practical problems can arise where an action is started by less than one-hundred per cent interest in the chose in action. Because of the length of time in pursuing the action a statute of limitation may intervene in relation to the subject matter of the action. In such event the right of action could be extinguished on technical grounds. The action as instituted fails because a necessary party is not before the court. The necessary party would not likely be added where the right of such party had become exhausted. A new action would likely suffer a similar fate.

#### IV. PROBLEMS OF SALE OF UNPATENTED AND PATENTED ARTICLES

Interesting problems arise where a vendor sells an article subject to a limitation in its use. The problem has been considered in relation to conditions in respect of the resale price of the purchaser. The purchaser may be restricted as to area of use. Recently in a compulsory licence case the matter was considered by the Exchequer Court in respect of the country to which the goods could be exported.<sup>112</sup>

If an article is sold without any restrictive covenant, limiting the right of the purchaser to use it, the purchaser as against the vendor may resell the article under any terms and conditions he thinks fit.<sup>113</sup> The same principle applies if the article is the subject of a patent. If the patentee sells an article covered by the patent without any limitation at the time of sale, the purchaser acquires an implied licence to use the article under any patent owned by the patentee in any country.<sup>114</sup>

<sup>109</sup> 61 Sup. Ct. 576 (1921).

<sup>110</sup> *Id.* at 581.

<sup>111</sup> [1959] Ont. Weekly N. 150 (Sup. Ct.). See also *In re Steel Wing Co.*, [1921] 1 Ch. 349, as applied in *DiGuilio v. Boland*, [1958] Ont. Weekly N. 384; *Williams v. Atl. Ass. Co.*, [1933] 1 K.B. 81.

<sup>112</sup> *Rhone-Poulenc S.A. v. Micro-Chemicals Ltd.*, 44 Can. Pat. R. 193 (Can. Ex. 1966) wherein Noel, J., considered the effect of a licence limited to the use of material in Canada.

<sup>113</sup> In *Dunlop Pneumatic Tyre Co. v. Selfridge & Co.*, [1915] A.C. 847, at 860, Lord Parker said : "But for any contract to the contrary, Messrs. A.J. Daw & Co. were entitled to resell the goods supplied to them by the appellants upon any terms they might think fit, and in reselling them as they did there was no breach of any restrictive covenant."

<sup>114</sup> See *Betts v. Willmott*, L.R. 6 Ch. 239 (1871) where Lord Hatherley in a patent infringement case said : "When a man has purchased an article he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his licence to sell the article, or to use it wherever he pleases, as against

The first problem that arises for consideration is where an unpatented article is sold.

In respect of an unpatented article where the vendor imposes a limitation or condition upon the use of an article at the time of sale, which the purchaser covenants to accept, the purchaser is bound by the limitation or condition in the contract. An action can be taken for breach of contract by the vendor.

To take the matter one step further, suppose the purchaser from the vendor sells the unpatented article to a third party and the third party had knowledge at the time of purchase of the limitation or condition under which the original purchaser bought the article from the original vendor. In that situation the third party is not bound by the condition or limitation. There is no privity of contract between the original vendor and the third party so that an action in contract is not available to the original vendor. A condition cannot be attached to goods so as to bind all purchasers with notice.<sup>115</sup>

The original vendor should exact a covenant from the original purchaser requiring him to exact a covenant of like nature from any purchaser from him. This might give him a cause of action against such original purchaser in contract.

The same two propositions are now considered where the sale of the article is made by the owner of a patent covering it.

The owner of a patent who is the vendor of an article may sell the article exacting a restrictive covenant from the purchaser and at the same time grant a limited licence to the purchaser under the patent subject to the purchaser abiding by the restrictive condition. In these circumstances the vendor has two separate causes of action against the purchaser who is in breach. The first is for damages for breach of contract and the second is for infringement as the purchaser of the article will be using it outside the scope of the limited licence.

Take the matter one step further. The purchaser from the patentec-vendor sells the article to a third party who has no knowledge of the original restrictive covenant or limited licence. The third party cannot be sued for

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himself." This case was approved by the Privy Council in *Nat'l Phonograph Co. of Australia Ltd. v. Menck*, 28 R. Pat. Cas. 229 (P.C. Aust. 1911); *Rhone-Poulenc S.A. v. Micro Chemicals Ltd.*, *supra* note 112. See also *Badische Aniline und Soda Fabrik v. Isler*, 23 R. Pat. Cas. 633 (Ch. 1906).

<sup>115</sup> *Taddy v. Sterious*, [1904] 1 Ch.D. 354. The manufacturer of tobacco sold packet tobacco subject to printed terms and conditions fixing a minimum price below which they were not to be sold. The tobacco was sold to a wholesale dealer who resold the goods to a retailer. The retailer had knowledge of the condition but sold the tobacco below the minimum price. The tobacco manufacturer was unsuccessful in an action against the retailer. This case was approved and adopted by the Court of Appeal in *McGruther v. Pitcher*, [1904] 2 Ch. 306. See also *Dunlop v. Selfridge*, *supra* note 113. It will be noted that a special rule applies to the purchase of a ship; *Lord Strathcona Steamship Co. v. Dom. Coal Co.*, [1926] A.C. 108 (P.C.N.S.).

breach of contract as there is no privity of contract with the original vendor. He cannot be sued in respect of the condition whether or not he knew of it.<sup>116</sup> He cannot be sued for infringement because he was not aware of the condition at the time of his purchase of the article.<sup>117</sup> Knowledge of the limited licence after the purchase is immaterial.

Now suppose the third party purchases the article from the original purchaser or on the open market with knowledge at the time of his purchase of the limitation upon the licence originally given to the original purchaser. Although the situation is the same as to the action in contract or reliance on the condition, the third party can be sued for patent infringement.<sup>118</sup> For this reason, vendors have had resort to label licences.<sup>119</sup>

It is a live question today how far the owner of a use patent can impose restrictions which bear upon the use of unpatented materials sold by the patentee. This involves a consideration of the compulsory licence provisions of section 67(2)(f) of the Patent Act, and sections 30 and 32 of the Combines Investigation Act, a subject outside the scope of present considerations. Suffice it to say that the patentee should ensure that the patent is not enforced in such a manner as to limit competition unduly in the unpatented material. It is the course of wisdom to grant a licence on reasonable terms under the patent to anyone who wishes to purchase the unpatented material from another.<sup>120</sup>

## V. IMPLIED WARRANTY

In Ontario, section 13(a) of the Sale of Goods Act<sup>121</sup> provides that in respect of the sale of goods, in the absence of circumstances indicating a different intention, there is an implied condition on the part of the seller that in the case of a sale he has the right to sell the goods.

Where a purchaser of goods is precluded from selling them by reason of a trade mark or a patent, he has a claim in damages against the vendor for breach of an implied condition of the contract.

<sup>116</sup> *McGruther v. Pitcher*, *supra* note 115, applied the principle of *Taddy v. Sterious*, *supra* note 115, to a situation where a patentee sought to rely on the breach of condition and not on patent infringement.

<sup>117</sup> *Nat'l Phonograph of Australia Ltd. v. Menck*, *supra* note 114; *Rhone-Poulenc S.A. v. Micro-Chemicals Ltd.* *supra* note 112.

<sup>118</sup> See in addition to *Nat'l Phonograph*, *supra* note 114; *The Incandescent Light Co. v. Cantelo*, 12 R. Pat. Cas. 262; 264 (Q.B.D. 1895); *Columbia Gramophone v. Vanner*, 33 R. Pat. Cas. 104, 106 (Ch. 1916); *Columbia Gramophone v. Murray*, 39 R. Pat. Cas. 239, 241 (Ch. 1922), *Columbia Gramophone v. Thoms*, 41 R. Pat. Cas. 294 (Ch. 1924); *Chloride Elec. Co. v. Silvia Wireless*, 48 R. Pat. Cas. 468, 470 (Ch. 1931); *Gillette Indus. Ltd. v. Bernstein*, 58 R. Pat. Cas. 271 (Ch. 1941).

<sup>119</sup> For a recent example of a label licence see *Hunter Ltd.'s Patent*, [1966] R. Pat. Cas. 416.

<sup>120</sup> Under the English statute see *Hunter Ltd.'s Patent*, *supra* note 119; *Tool Metal Mfg. Co. v. Tangster Elec. Co.*, 72 R. Pat. Cas. 209 (H.L. 1955); also note 36 *supra*.

<sup>121</sup> The Sale of Goods Act, ONT. REV. STAT. 1960, c. 358, § 13 reads in part: "In a contract of sale, unless the circumstances of the contract are such as to show a different intention, there is (a) an implied condition on the part of the seller that in the case of a sale he has a right to sell the goods, and that in the case of an agreement to sell he will have a right to sell the goods at the time when the property is to pass."

The matter was decided in a trade mark case under a similar provision in England where the buyer of condensed milk in cans recovered damages for his loss in selling the articles after being obliged to remove from them an offending trade mark.<sup>122</sup> Therefore, the vendor of goods may face a suit in damages from the purchaser if the purchaser is enjoined from use or further sale of such goods by reason of a patent owned by a third party. This right of action exists independent of any express term in the contract of sale and unless a contrary expression of intent is found in that contract.

## VI. CONCLUSION

It was the intention of this article to establish that assignments can give rise to many complex problems, whether the assignment is a contract relating to the sale of a patent, the benefit of a contract the subject matter of which is a patent, or the sale of a chattel covered by the patent. It has been earlier suggested that there is a real need for legislative clarification. Perhaps there has been a reluctance on the part of the legislature of Canada to enact legislation because the rights relating to a chose in action are, generally speaking, civil rights. However, as long as the enactment is one in relation to patents, even though civil rights are affected, the legislation should be constitutional. Section 53 as it now stands is constitutional;<sup>123</sup> there is no reason why a more elaborate enactment dealing with the problems would not also be constitutional. I would suggest that consideration be given to ensure that one can rely on the register. The opportunity can be given to anyone having an interest in a patent or having a licence in respect of a patent to record his interest or notice of his licence. If he fails to take advantage of the right to register, he runs the risk of losing his rights. In view of the large commercial transactions that can arise relating to patents, certainty of the law should be preferred.

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<sup>122</sup> *Niblett v. Confectioners Materials Co.*, [1921] 3 K.B. 387. See also *Egekuist Bakeries Inc. v. Tizel*, [1950] 1 D.L.R. 585 (Ont. Sup. Ct.), *aff'd*, [1950] 2 D.L.R. 592 (Ont.).

<sup>123</sup> *Queen v. Inter-Provincial Commercial Discount Corp.*, [1966] Can. Tax Cas. Ann. 105 (Can. Ex.).