

WHO OWNS THE EMPLOYEE'S PATENT?

In patent matters the interests of employers and employees are often contrary. Here's sound advice for both to follow

by W. BRUCE BECKLEY

ONE DAY, SOME MONTHS after being employed on the wartime research project of a large university, an engineer was called to the director's office and asked to execute an assignment, in favor of the government, of an invention developed in the course of his work on the project. The engineer protested that he had not agreed to make such an assignment. Furthermore, he had previously signed a contract with his former employer, a large oil company, to assign all his inventions made for one year after he left such employment. The director said he was sorry, but the university had agreed to assign all inventions made during the course of the work, so he would try to get a release from the oil company. Upon inquiry, however, the oil company also objected, relying on its written contract with the engineer.

The same or similar scenes—too often enacted during the course of wartime research—focused attention sharply on problems dealing with patent rights, and particularly on those arising in connection with the respective rights of employers and employees. Fortunately for all concerned the engineer and the oil company in this case—as in hundreds of other instances in connection with the war effort—relented and made the necessary assignments. But in the field of competitive business, where the spur of patriotism is no longer effective, such a situation might well have led to complicated and expensive litigation.

This is so only because many employees have but the faintest notion of their rights and obligations. As a consequence, they may be entirely unreasonable in their demands, or they may foolishly bargain away valuable rights. Likewise, many employers are totally ignorant of their legal rights. Or, in other cases, they are so well acquainted with them that they obtain inequitable contracts from uninformed employees.

The subject is not a simple one. It has often led to considerable bitterness and incrimination between employer and employee. But much of this unpleasantness can be avoided if both parties are familiar with a few controlling concepts at the time of hiring.

First the contract, then the invention

The interests of the employee and employer, in so far as patent matters are concerned, are often contrary. After an invention is made, each may well feel that he is entitled to the accruing rights and benefits. For this reason alone, it is much better that a clear contractual arrangement be established at the beginning of the relationship. This does not mean that any contract which one of the parties may—by force, coercion or a greater knowledge—foist onto the other will be enforced by the courts. But a fair contract, executed with general equitable principles in mind, will

eliminate to a large degree those sources of difficulty which cause controversies when neither party has previously considered the problem.

The situations which arise fall into two general categories: first, where the parties have no written contract defining their relative rights in inventions, and second, where a contract provides for such matters.

Where no contract has been entered into, the parties are bound by the common law, which holds that their respective rights are dependent upon the nature and purpose of the employment. The clearest case is, of course, one where an employer hires an employee to invent or develop a certain thing. Here, it is normally understood that the employee is being paid for his ability to develop or invent, and that a part of his wages or salary is being paid for just that ability. In such instances the law is clear, that the employer is entitled to any inventions so made, and may require an assignment of any resulting patent. The employee, having received his wages, is entitled to nothing more. However, in these cases the Supreme Court has held that it must be very clear that the employee was assigned to invention or was expected to invent.

At the other end of the scale is the situation where an employee, hired by an employer engaged in a particular business, makes an invention on his own time and with his own materials, in an entirely different line of endeavor. In this case, the law is equally clear, that the employee is entitled to all of the rights in the invention and the patent, and the employer to none.

Unfortunately, most cases fall somewhere between these two. The employee, not hired to invent, makes an invention useful in his employer's business, on the employer's time, or with the employer's material. The employee, hired to invent, makes an invention on his own time in an unrelated field. The employee, not hired specifically to invent, but in a position to become familiar with his employer's business and product, makes an invention useful in the business.

These, and related questions, require an objective view, a consideration of the position of both parties, and often lead to an application of the much misunderstood doctrine of "shop rights."

A shop right may be briefly defined as the right of an employer to use an invention (a non-exclusive license) in his business, without further compensation, if the invention is made by an employee, on the employer's time and with his material, and is useful in the employer's business. This appears entirely equitable, as it permits the employer to use the thing which his facilities and money have made possible, and which he has essentially requested the employee to produce. However, the employee retains title to the patent, and may assert it against all except his employer.

The shop right doctrine is not made entirely clear in the many opinions discussing it. Some seem to require that the employee must have permitted the employer to use the invention—either expressly or by silent acquiescence—before the shop right arises. It is felt that the better view would not insist upon this requirement, for in the normal employer-employee relationship, suggestions and improvements are a part of what both expect the employee to furnish the employer. In other words, neither expects the employer to furnish his time and materials and to pay a salary to a workman, if the man is likely to use the results of his endeavors contrary to the interests of his employer.

Other difficult questions arise when an invention developed by an employee has application not only to his employer's business, but also to other fields of endeavor. In this situation, the courts will normally hold that the employee is entitled to the application of the invention to other fields, even though the employer may have rights to the use in his business. Thus, where an employee was requested to develop an electronic device for sorting cigars, he was entitled to file independently for a patent covering an application of the same invention to the sound recording field.

Limitations as to the time at which an invention is made, as well as its industrial application, are also important. Generally, an employee is entitled to an invention made after the employment is terminated, in the absence of contract. However, the courts will look with suspicion on inventions applicable to an employer's business made very soon after such termination. And it is obvious that an employee should not instigate a termination to claim the benefits of an invention which he has already made, or which is essentially completed. Nor may an employee claim an invention to which his employer is otherwise entitled, merely because it was perfected after hours.

Thus far we have been concerned with the rights to inventions where there is no question as to whether the employee is the inventor. Somewhat different, but associated, problems arise in determining whether the employer or the employee actually made the invention. Parenthetically, it should be noted that a patent, to be valid, must be applied for in the name of the person or persons who made the invention, and that a

patent can only be applied for by a person or persons—and not by a company or corporation.

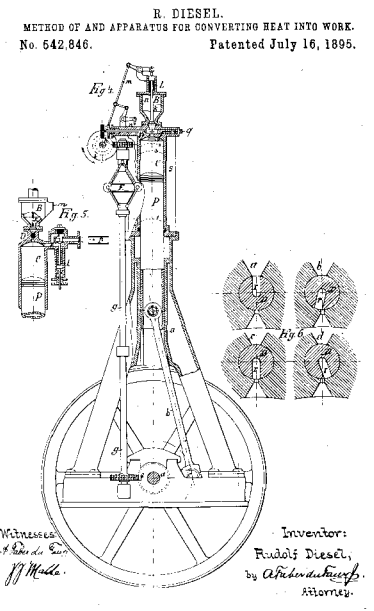
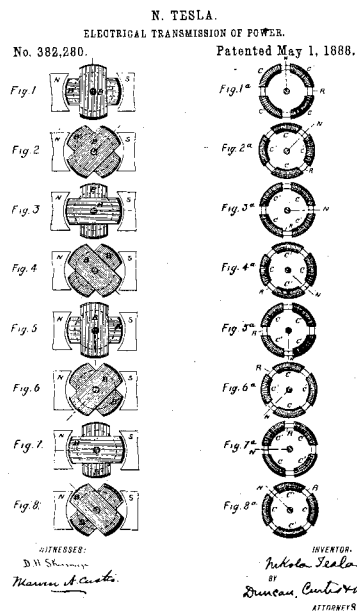
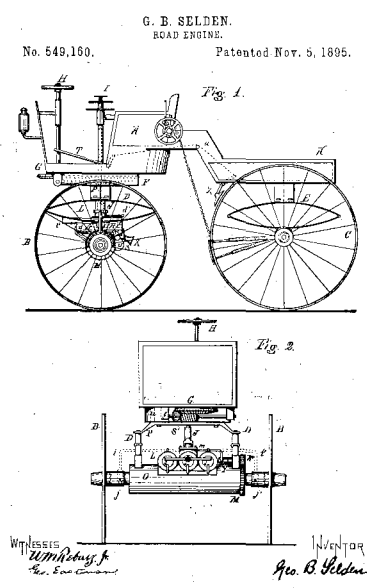
The question of who made the invention is solved by determining whether a problem was assigned for solution, or whether the employee was merely requested to construct a practical and efficient means or method of embodying a problem already generally solved. In the former case, since the employee actually solved the problem and made the advance in the art, he is the inventor—irrespective of whether the employer may be entitled to a shop right or an assignment. In the latter case, the employee is not an inventor, unless his final embodiment so departs from the originally developed idea as to incorporate an entirely different principle of operation. But minor improvements suggested by the employee, and embodied in the final invention, belong to the employer. This doctrine was stated by the Supreme Court of the United States as early as 1868.

This indicates the desirability of having a written employment contract containing specific provisions with regard to inventions. It not only insures a consideration of the problems at the time of employment, but may well subsequently avoid exaggerated cases of "bad memory" or misunderstanding.

Most courts will naturally uphold any reasonable contract in this connection. Thus, a contract to assign all inventions dealing with the employer's business will be specifically enforced—particularly as against an employee who is hired to invent, or who may reasonably be expected to do so. It would not seem advisable or equitable to have such a contract apply to unskilled persons—janitors, office workers, laborers, drivers, etc.—although it would probably be valid.

Some courts have upheld contracts to assign all future inventions in a particular field, if the consideration received by the assignor is sufficient. But a written contract with an employee, to assign any and all inventions in any field at any time in the future, is unenforceable, on the ground that the employee would be prevented from ever getting other employment.

As said by one court, "A naked assignment or agreement to assign, in gross, a man's future labors as an author or inventor—in other words, a mortgage on a man's brain, to bind all its future products—does not address itself favorably to our consideration." And,



although contracts to assign all subsequent inventions in a given field, or all improvements on existing inventions, will be enforced, if reasonable, they will be strictly construed. It is felt that contracts of this nature should be limited, in time, to improvements on existing inventions, and should certainly not extend for more than one year after termination of employment.

What constitutes a contract?

One other aspect of the employer-employee contractual relationship deserves mention. The basic contract law generally requires that each party to a contract give or promise something he was not already bound to give or promise, in order that the contract may be held valid. Thus, as to **existing** employees, a mere agreement by the employee to assign future inventions, without any additional payment or consideration, has doubtful validity, because the employee receives nothing for his promise to assign. Several ways of overcoming this doubt—by coupling the agreement with a raise in salary, a bonus, or a promise to continue employment for a specified period—may be worked out. But the difficulty does emphasize the practical necessity of inserting provisions concerning patent rights in the original contract of employment.

No easy formula for determining the respective rights in these relationships can be evolved. A committee of eminent lawyers—appointed by the Section of Patent, Trade-Mark & Copyright Law of the American Bar Association—recently agreed that an employer could fairly require assignments of inventions made by employees hired to invent and those hired for other duties and placed in a position of confidence, where inventions are likely to result. But the committee also stated:

“... special factors involved in operations of different employers make it impossible to arrive at any general formula applicable to all employers. Even in the case of individual employers, it is difficult to provide a formula applicable to all situations without creating injustice and serious internal friction.”

This committee's report goes on to recommend to employers and employees alike a consideration of those factors held of primary consideration in the Second Report of the National Patent Planning Commission. That Commission set forth two basic common law

rules, and urged their adoption as a part of the employment contract:

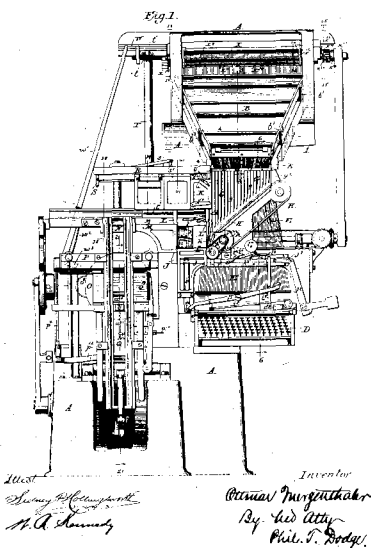
- (a) Inventions made within the specifically designated duties of the employee shall be assigned to the employer since he has only produced that which he was employed to invent;
- (b) Inventions made by an employee on his own time, without the use of his employer's facilities, and in a field unrelated to his employment, shall be the exclusive property of the employee, who shall be entitled to all patent rights.

As to other inventions, the Commission (which was concerned with governmental inventions, but whose recommendations would seem equally applicable to private employers) said:

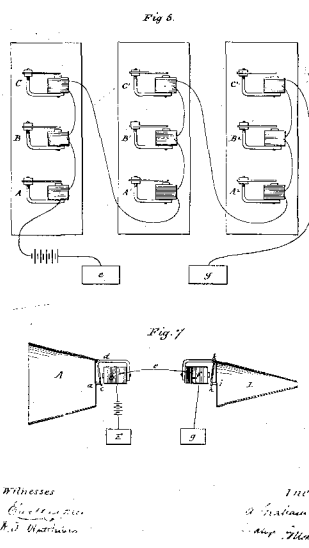
“It is in the area not covered by (a) and (b) above that the least uniformity exists in Government practice because of the many variables involved. Within this area it does not seem practicable to devise a uniform law or order which could equitably apply to the many combinations of circumstances which can, and do, arise. The conditions of employment under which the inventions may be developed; their relationship to Government work; the character of the contribution of the inventor; the needs of the agencies and of the Government as a whole, and probably contribution to the public welfare—all are variable factors, and a great degree of flexibility is necessary. Accordingly, the Commission concludes that it should be left to the agencies initially to determine the action which will best serve the interests of the public, the Government as represented by the agency, and the encouragement of inventiveness by the employees.”

The law is clear when the employee is hired to invent, and also when he develops an idea not concerned with his employer's business, and with his own time and materials. It is the situations in between which are fraught with difficulty, and which demand contractual agreement at the time of hiring. Being a source of practical and psychological friction, these are problems in human relations as well as business and law. And any attempt at their solution has an infinitely greater chance of success if steps are taken before unpleasant, expensive controversies arise.

O. MORGENTHAU.
MACHINE FOR PRODUCING LINOTYPES, TYPE MATRICES, &c.
No. 436,532. Patented Sept. 16, 1890.



A. G. BELL.
TELEGRAPHY.
No. 174,455. Patented March 7, 1875.



G. WESTINGHOUSE, Jr.
STEAM POWER BRAKE.
No. 88,929. Patented Apr. 13, 1869.

