

Intellectual Property

Employees may own key patents

BY BRADLEY C. WRIGHT

SOME COMPANIES mistakenly believe that they own any patents arising from inventions made by their employees. This misconception can create surprises in two situations: if an employee refuses to sign papers assigning an invention to the company and if the company enforces a patent in court and cannot prove that it owns the patent. Companies that rely on poorly drafted employment agreements are most likely to find themselves in such predicaments.

Two recent decisions by the U.S. Court of Appeals for the Federal Circuit illustrate the risks associated with lax employment procedures. In *Speedplay Inc. v. Bebob Inc.*,¹ the court concluded that an employment agreement saying that the employee “hereby conveys, transfers and assigns” all future inventions acted as a transfer of later-developed inventions, and no further assignment was necessary to prove that the company owned the patent. On the other hand, in *Banks v. Unisys Corp.*,² the court concluded that an inventor who refused to sign an invention agreement was not necessarily obligated to assign patent rights to his employer.

Absent a written agreement to the contrary, patents are presumptively owned by the inventor, even if that inventor is employed by a corporation and even if the invention is developed on company time and using company facilities. This surprises some business owners, who erroneously believe that because they have paid for the development of the invention, they own any patents arising out of the inventive process. (The same is not true under copyright law. Under the “work for hire” doctrine, an employer generally owns copyrights arising out

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of an employee’s creative faculties.) Because inventors must be named on a patent without regard to whether they have assigned their patent rights to the company, missing paperwork or refusals to sign documents can greatly reduce the value of a patent to a company.

The principles governing patent ownership are determined by state law. Some states, notably California, limit the ability of employers to force employees to assign patent rights. Sec. 2870 of California’s Labor Code renders unenforceable agreements that require an employee to assign inventions developed on the employee’s own time and facilities, and which do not relate to the employer’s business. Moreover, a company’s attempt to unilaterally impose invention assignment obligations through an employee handbook is not likely to succeed.³

Two exceptions to the rule

There are two exceptions to the general rule that an inventor owns all rights in issued patents. First, under the “hired to invent” doctrine, the law implies an obligation to assign inventions if the employee was hired to solve a specific problem or to exercise “inventive faculties.” Second, under the “shop right” doctrine, an employer may have the right to use an invention that was developed on company time and using company facilities.

The hired-to-invent doctrine was first applied by the U.S. Supreme Court in *Standard Parts Co. v. Peck*.⁴ In *Peck*, an employee was hired under a written contract to solve a specific problem—the development of a process and machinery for producing a front spring on a car. The court held that the employee was obliged to assign patent rights to the employer.

A few years later, however, the high court held that research scientists were not obligated to assign patents on inventions developed

during the course of their employment because they were not specifically “hired to invent.”⁵ The court distinguished *Peck* on the basis that William J. Peck’s invention was “the precise subject of the contract of employment.”

The line between “hired to invent” and general employment is a fuzzy one, and it has led to uncertain application of the doctrine. Because the employer bears the burden of proving that employment was for the specific purpose of making the invention, an employer’s reliance on this doctrine can be risky.

The Federal Circuit’s recent decision in *Banks v. Unisys Corp.*⁶ illustrates the risks associated with reliance on the hired-to-invent doctrine. When Gerald Banks began employment as an optical engineer at Unisys, he refused to sign a standard invention agreement. During his employment, Mr. Banks helped to develop a camera that later became the subject of several patent applications. On his last day of employment, he refused to sign a document that he believed would have assigned to Unisys all of his inventions conceived during his employment.

Mr. Banks later sued, alleging that he owned the patent rights. In its defense, Unisys raised the hired-to-invent doctrine, arguing that because Mr. Banks had been assigned to work on a project with the sole purpose of developing a camera, he was obligated

to assign any patent rights to Unisys. The district court agreed with Unisys, finding that Mr. Banks was “hired to invent” the camera, and granted summary judgment in favor of Unisys.

The Federal Circuit vacated and remanded. According to the court, the hired-to-invent doctrine is subject to principles of implied-in-fact contract law. Because Mr. Banks had refused to sign papers relinquishing his invention rights, the court concluded that there was not clearly the “meeting of the minds” necessary to form an implied-in-fact contract. In light of this decision, employers should consider whether it is worth retaining a

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newly hired employee who refuses to sign an employee-invention agreement.

Shop-right is only a defense

The shop-right doctrine, which gives employers a nonexclusive right to use inventions developed with company resources, is also subject to various limitations. Most important, it is merely a defense to a charge of patent infringement brought by the employee. Accordingly, the employer owns no rights in the patent, leaving the employee free to assign or license the patent to competitors. In order to rely on this defense, an employer must generally show that the employee developed the invention during working hours; that the employee used the employer's equipment; and that the invention was introduced into the employer's facilities. It is insufficient to show that an employer/employee relationship exists. Moreover, the employee may be able to prevent the creation of a shop right by showing that no consent to royalty-free use was intended.⁷

Sometimes an employee leaves the company before signing patent documents. Particularly if the employee has been fired or has left on bad terms, it may be impossible to obtain the employee's cooperation, leaving the company with the prospect of suing to enforce the employment agreement.

Although the U.S. Patent and Trademark Office (PTO) provides procedures for dealing with uncooperative inventors, such procedures do nothing to protect a company's ownership interests in any resulting patent. Ownership must be dealt with under state law, and it may require that the company sue the former employee in order to settle title to the patent. Such suits may be subject to various defenses and bad publicity.

Fortunately for employers, the wording of the employment agreement may determine whether it is necessary to sue the former employee in order to determine patent rights. Sec. 261 of the patent statute provides that patent applications and patents may be assigned "by an instrument in writing." The statute further provides a recording system intended to place third parties on notice of ownership interests in patents. Consequently, patent assignments are frequently recorded at the PTO.

The 'Speedplay' decision

What can a company do if an employee leaves before signing a patent assignment? One answer can be found in the recent *Speedplay*

Inc. v. Bebop Inc. decision. In that case, an employee had signed an agreement providing that all inventions conceived by the employee "shall belong exclusively to" Speedplay, the employer, and that the employee "hereby conveys, transfers and assigns" to Speedplay "all right, title and interest in and to" the inventions. Two years after the employee signed the agreement, a patent application was filed, and a patent later issued based on the application.

During patent-infringement litigation brought by the employer, the accused infringer argued that the employer did not own the patent because the employment agreement was merely a promise to assign a future invention. Citing the Federal Circuit's decision in *Arachnid Inc. v. Merit Industries Inc.*,⁸ the infringer argued that the patent was never assigned to Speedplay, and thus it lacked standing to sue. The Federal Circuit disagreed, noting that the agreement was written in the present tense ("hereby assigns"). It held that no further act was required once the invention came into being; the transfer of title

occurred by operation of law.

Thus, employers can ensure that they will own future patent rights by using the present-tense "hereby assigns" language in employment agreements rather than the

looser "hereby agrees to assign" language, which would necessitate a lawsuit to enforce the agreement. Employers can also record such employment agreements at the PTO to place third parties on notice.

It is fairly straightforward to require that new employees sign an invention agreement as a condition of future employment. Such agreements are generally not contrary to public policy, and the offer of future employment is sufficient consideration to make the agreement binding.

Companies with existing employees that have not signed such agreements may need to pursue a different course of action. First, an agreement signed by existing employees should cover not only new inventions prospectively, but also inventions developed before the execution of the agreement. Second, although some courts have found that continued employment is sufficient consideration for executing an invention agreement, in other courts employees have successfully argued that continued employment was insufficient consideration, thus nullifying the agreement.⁹ Consequently, where existing employees are concerned, the safest course of action is to offer new consideration—e.g., money—in exchange for executing a new agreement.

Many employers do not want to alienate employees by forcing them to sign agreements that divest employees of ideas unrelated to the employer's business. In such situations, the employment agreement can be drafted to cover only inventions that relate to the employer's current or reasonably foreseeable line of business. For example, an employee who works for a chemical company and who invents a new bottle opener while tinkering in his garage can be accommodated by excluding inventions unrelated to the employer's business. Employment agreements should not be drafted so broadly that they include inventions developed after the employee leaves the company.¹⁰

With recent cases holding that "methods of doing business" can be patented, a company's accountants, marketing executives, advertising consultants and other traditionally nontechnical employees can become inventors. The fact that "business" people can be inventors creates the possibility that, in the absence of a written agreement, these employees may own rights to patents. Consequently, companies should consider whether all employees—not merely those engaged in traditional research and development activities—should be required to sign employee invention agreements.

Properly drafted employment agreements can ensure that companies retain patent rights in inventions developed by their employees. Requiring that all employees sign such agreements, including those not traditionally associated with inventive technical tasks, may help protect the company's interests in business-method patents. Invention agreements must be reasonable in scope to avoid overreaching and unenforceable provisions that may conflict with state laws. Finally, using specific wording to indicate an intent to transfer future intellectual property can avoid the need to sue employees to enforce the employment agreement.

(1) 211 F.3d 1245 (Fed. Cir. 2000).

(2) 228 F.3d 1357 (Fed. Cir. 2000).

(3) See, e.g., *Liggett Group Inc. v. Sunas*, 437 S.E.2d 674 (N.C. App. 1993); *University Patents Inc. v. Kligman*, 762 F. Supp. 1212 (E.D. Pa. 1991).

(4) 264 U.S. 52 (1924).

(5) *U.S. v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933).

(6) 228 F.3d 1357 (Fed. Cir. 2000).

(7) See *Hobbs v. U.S.*, 376 F.2d 488 (5th Cir. 1967).

(8) 939 F.2d 1574 (Fed. Cir. 1991).

(9) Compare *Hewlett v. Samsonite Corp.*, 507 P.2d 1119 (Colo. App. 1973) with *Harsco Corp. v. Zlotnicki*, 779 F.2d 906 (3d Cir. 1985). See also *Teleflex Information Sys. Inc. v. Arnold*, 513 S.E.2d 85 (N.C. App. 1999) (terminating employee for refusing to sign agreement does not violate any public policy).

(10) See, e.g., *Ingersoll-Rand Co. v. Ciavatta*, 524 A.2d 866 (N.J. Super. Ct. 1987).