

Intellectual Property Rights of Inventors and Employers in the U.S.

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Abstract

Intellectual Property (IP) rights for both inventors and employers can be a confusing quagmire for all involved. The traditional aspects of inventor IP rights, viz., patents, copyrights and trade secrets as well as related to employer and employee rights will be compared in this paper. Issues discussed include ownership rights of IP from the perspective of both the employer and the employee. From the perspective the employer, issues include the importance and content of employment agreements, timing of the agreement (i.e., issues related to an agreement execution before and after commencement of employment), identification of what is and what isn't considered to be an invention owned by the company (e.g., inventions made prior to employment and inventions made outside the scope of employment may not be owned by the company), and agreements with respect to employees vs. agreements with respect to independent contractors. From the perspective of the employee, issues include inventions made outside of course of employment, the importance of carefully reading and understanding the employment agreement, both the inventor's rights and obligations and the employer's rights and obligations under the agreement (and complying with those terms), whether or not there is even an employer/employee relationship (e.g., are you an independent contractor or employee), and the importance of proper record keeping, particularly for inventions made that are outside the scope of employment. The terms of employment agreements with regard to IP can be stringent in some cases and inventors especially need to be aware, from the start, of these obligations such as identifying the existence of their inventions to the employer prior to beginning employment.

This paper will survey the IP rights of the inventor/employee and of the employer and guidelines for both.

EMPLOYER AND EMPLOYEE OWNERSHIP OF IP

Patents

With respect to patents, in the absence of any agreement to the contrary, each of the joint owners of a patent may make, use or sell the patented invention without the consent of and without accounting to the other owners.^{1,2}

As a result, each inventor can choose to license or otherwise negotiate with any third party for rights in the patent without the consent of the other inventors. Therefore, in order to transfer ownership of a patent to a particular entity, *all* of the inventors must agree to transfer their complete interest in the patent to that entity.

When an inventor is hired by his or her employer to create inventions as part of his or her employment duties (such as where the employment is as an engineer or scientist), in most circumstances, the inventor is obligated to convey all of his or her rights in any patent applications and patents based on the invention to the employer. This obligation is typically effected by the inventor executing an assignment of all rights to the invention from the inventor to the employer. To avoid disputes, employment agreements typically address this obligation in the form of a clause which sets forth the requirement that either the employee must transfer all rights in inventions that they create during the course of their employment with the employer, or, at the time of execution of the employment agreement, the employee assigns all rights in inventions they create during the course of their employment. To memorialize this obligation, a written assignment is typically created for each particular patent or application that all inventors of a patent application execute. This executed assignment is then recorded at the U.S. Patent and Trademark Office to inform the public of the current owner of the patent application that may eventually issue into a patent.

Even in the absence of an express agreement to assign the invention (such as the employment agreement discussed above), the law may imply such an obligation, especially when the inventor is employed for the purpose of making inventions, and under the assumption that the invention "reasonably relates to the field of his employment activities."³

Copyrights

With regard to copyrights, when authors are hired by others to create works as part of their employment, absent an agreement to the contrary, and unlike patents, any works created by these authors are typically considered a "work for hire" 17 U.S.C. § 201(b), and are, therefore, owned by the employer. A "work for hire" is defined by the U.S. Copyright Laws at 17 U.S.C. § 101:

- (1) a work prepared by an employee within the scope of his or her employment; or

¹ 35 U.S.C. §262.

² The one exception to the right of joint owners operating free of each other is that all joint owners must be made parties to a suit charging infringement of their jointly owned patent. *Ethicon, Inc. v. U.S. Surgical Corp.*, 135 F.3d 1456, 1459, 1467-68 (Fed. Cir. 1998)

³ See *Thermo Electron Engineering Corp. v. Lyczko*, 151 USPQ 303 (Mass. Super. Ct. 1966).

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a “supplementary work” is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an “instructional text” is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

The U.S. Copyright Law further defines a work made for hire at 17 U.S.C. 201(b):

Works Made for Hire.—In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright. In this case, a written agreement may be created to provide for ownership in the work to reside with the actual author.

ISSUES RELATED TO EMPLOYMENT AGREEMENTS

Employment Agreement Issues of Substantial Importance to Employees

Many times an employment agreement will include the following provision:

“Prior to commencement of employment, employee shall disclose to employer any and all inventions discovered, created or developed prior to commencement of employment.”

Employees want to comply with this term completely to make certain that he or she has identified to the employer any inventions that the employer will have NO rights in. Employers want to make sure that they do not overreach in trying to obtain rights in some invention(s) that was not developed while the employee was employed there and no employer resources were used. Failure by the employee to identify the invention(s) from the start could result in the employer later obtaining rights in an invention it effectively had no right to. What confuses the issue even more is if the inventor then uses employer resources to further develop an invention that existed before the employee came to the employer.

But the phrase is still vague. Note the phrase “any and all inventions”. Does that include inventions that are unrelated to the

business of the employer? Certainly an argument can be made that inventions *unrelated* to the business of the employer would not be subject to that agreement term. The key here is to identify potential problems early. Employers can make the terms of the employment more clear by inserting a more clarifying phrase “any and all inventions pertaining to the business of the employer”. Employees can, before executing the employment agreement, ask for a clarification of those terms.

Employment agreements may include a provision that an invention is owned by the employer for a limited time subsequent to termination of the employee:

Any ideas, discoveries and inventions conceived made, acquired or developed by employee, in whole or in part, during the term of employment or within six months after termination of employment, shall conclusively be deemed to have been conceived, made, acquired or developed during the term of employment and are subject to disclosure.

Employers typically want to prevent terminated employees from taking advantage of acquired knowledge and trying to obtain exclusive rights from the date of termination. Employees may want to suppress the reduction to practice or filing of any new patent/copyright applications from the date of termination; rather, they want to wait until the end of the “continuance of ownership” period expires (e.g., six months) before pursuing the invention or copyright.

Employees should be aware of the terms of the employment agreement that insist that all inventions remain confidential and that contact with any third party must be avoided unless permitted by the employer.

Employment Agreement Issues of Substantial Importance to Employers

Where an employee was not specifically hired to invent, and where the employee did not sign an employment agreement requiring assignment of an invention (for example, in the case of a factory assembly line worker (*i.e.*, a person not hired to invent) inventing an improved assembly technique), the use, by that inventor, of company resources in the development of an invention may provide the company with a “shop right” in the invention, *i.e.*, an implied license to use the invention without the need to compensate the inventor (e.g., by payment of royalties)⁴. The shop right may allow an employer to use, without payment to the employee, on an employee’s invention that was made using the employer’s time and/or materials, facilities or equipment⁵. Thus, should an inventor use company resources to develop an invention even if not related to the company’s business, the company most likely will have a shop right in the invention.

Not all inventions made during the time of employment by an employee are subject to ownership by the employer. For

⁴ *Larisey v. U.S.*, 949 F.2d 1137 (Fed. Cir. 1991).

⁵ *Wommack V. Durham Pecan Co.*, 715 F.2d 962 (5th Cir. 1983).

example, inventions created during the employee's own time, on his or her own equipment, without using the employer's funds, and not within the scope of employment are not typically the subject of an ownership dispute. However, an employment agreement should specifically address the rights and obligations of each party.

ISSUES RELATED TO INDEPENDENT CONTRACTORS

If a person has a relationship with a company, but not one of "employee", for example, a consultant or independent contractor, then the need for a written document evidencing the transfer of ownership becomes even more important. The agreement should clearly address who owns any IP (*e.g.*, the employer or the independent contractor).

Patents

As mentioned previously, absent an agreement to the contrary, the original inventor (*e.g.*, here, the independent contractor), likely owns any inventions that he or she creates.

Copyrights

Ownership of copyrightable works is generally held by the independent contractor who created the work unless there is an agreement transferring ownership to the employer. Independent contractors will own rights in the work unless the work falls within one of the statutorily created types of work and there is a written work-for-hire contract (or the copyrights are specifically assigned by the independent contractor to the employer, in writing). There are nine statutorily created types of work where the independent contractor will not own the work:

- (1) a contribution to a collective work;
- (2) a part of a motion picture or other audiovisual work;
- (3) a translation;
- (4) a supplementary work;
- (5) a compilation;
- (6) an instructional text;
- (7) a test;
- (8) answer material for a test; and
- (9) an atlas;

These nine categories are relatively narrow. Therefore, an agreement between the employer and the independent contractor should make ownership of the copyrighted works clear to both parties.

TAKEAWAYS

A. With respect to patents, absent an agreement to the contrary or a specific employment relationship (such as employees hired to invent), ownership generally resides with the inventor. A separate written assignment is typically required from the inventors to the employer if the employer desires ownership of the patent or patent application.

B. With respect to copyrightable subject matter created by an employee, generally, works created by these authors are

typically considered a "work for hire" and are owned by the employer.

C. With respect to copyrightable subject matter created by an independent contractor, absent an agreement to the contrary, or the work falling into one of the nine exceptions identified above in Section IV(B) above, the independent contractor owns rights in the work.

D. Employees should carefully study their employment agreements and understand specifically their rights and obligations before they execute the agreement; and

E. Employers should ensure that a proper employment agreement is obtained with the employee which specifically addresses that all IP created by the employee during the course of his or her employment with the employer is properly assigned to the company. To ensure that adequate "consideration" exists, this agreement should be executed prior to actual employment, if possible. If signed subsequent to employment, adequate consideration must be given to support the agreement, such as a promotion, bonus, stock options, etc. Note that state laws addressing this issue may vary.

References

1. 35 U.S.C. §262.
2. *Ethicon, Inc. v. U.S. Surgical Corp.*, 135 F.3d 1456, 1459, 1467-68 (Fed. Cir. 1998).
3. *Thermo Electron Engineering Corp. v. Lyczko*, 151 USPQ 303 (Mass. Super. Ct. 1966).
4. *Lariscey v. U.S.*, 949 F. 2d 1137 (Fed. Cir. 1991).
5. *Wommack V. Durham Pecan Co.*, 715 F.2d 962 (5th Cir. 1983).

Author Biographies

Scott Slomowitz is an intellectual property attorney with over 20 years of experience in all aspects of IP which includes patents, copyrights, trademarks and trade secrets. He represents large corporations and small businesses, as well as sole inventors in counseling them on how best to protect their IP. He holds an electrical engineering degree from the University of Delaware and worked as a flight controls engineer at Boeing Helicopters for several years. His industry experience, as well as being a patent holder of several inventions himself, places him in the unique role of being a well-seasoned IP attorney and inventor.

Gary Greene is experienced in handling matters in all aspects of intellectual property law, including licensing, litigation, and U.S. and foreign patent and trademark prosecution. He has particular experience in mechanical and electro-mechanical technologies. Mr. Greene is registered to practice before the United States Patent and Trademark Office and is also a licensed professional engineer. Mr. Greene is admitted to practice law in U.S. federal and state courts, as well as at the U.S. Patent and Trademark Office. Mr. Greene obtained a Bachelor of Mechanical Engineering and Master of Laws at Villanova University, and a Juris Doctor at Widener University.