DETERMINING OWNERSHIP OF EMPLOYEE INVENTIONS IN THE U.S.

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INTRODUCTION
In Solomons v. United States, 137 U.S. 342, (1890), the United States Supreme Court indicated that an employer's rights in an employee's invention depend upon whether there is an express agreement between the parties. The general holding in Solomons still applies today. In general, where there is a valid written employment agreement, the agreement controls. Absent an agreement, the controlling law is the law of the State in which the workplace is located.

OWNERSHIP TO EMPLOYEE INVENTIONS WHEN THERE IS NO WRITTEN AGREEMENT
As a general proposition, there is no rule in the U.S. that an employee must assign his rights in his inventions to his employer. In the case where there is no valid written agreement that requires the employee to assign ownership of the invention to the Company, the controlling law is the common law of the State where the employment occurred. Although the applicable law might vary in some respects from State to State, three general common law principles apply to most employment relationships in the United States, to wit.

1. If an employee is not hired specifically for the purpose of inventing anything, then the employee will have ownership and patent rights of whatever he may invent during the course of his employment. This general rule applies even if the invention is related to the Company’s business. In Banner Metals, Inc. v. Lockwood, 178 Cal. App. 2d 643 (1960), the defendant Lockwood formerly was employed by the plaintiff corporation in a general capacity and not specifically to perform services of an inventive nature. The California Court of Appeal held: “[I]t is well settled that one, by merely entering an employment requiring the performance of services of a non-inventive nature, does not lose his rights to any invention that he may make during the employment, although the employment may have furnished him the opportunity or occasion for the conception of an idea which may lead to a patent, and the rendition of services in the course of his employment may have so enhanced his mechanical skill, scientific knowledge and inventive faculties as to enable him to develop and perfect the idea into a patentable article; this is true even if the patent is for an improvement upon a device or process used by the Company or is of such great practical value as to supersede the devices or
processes with which the employee became familiar during his employment. Id. at 654.”

Nevertheless, even where the employee owns the invention and any resulting patent, the Company may acquire what is called a "shop right" to the invention. A shop right provides the Company with a non-exclusive, royalty-free, non-transferable license to make, use and sell items embodying an employee’s patentable invention, but only within the normal scope of that Company’s business. Shop rights do not automatically arise, however. Shop rights typically exist only where an employee (a) during his hours of employment, (b) working with his Company’s materials and appliances, (c) conceives and (d) perfects an invention for which he obtains a patent.

2. If the employee/inventor was "hired to invent," he likely will be obligated to assign his rights as to any invention to the Company. In Daniel Orifice Fitting Co. v. Whalen, 198 Cal. App. 2d 791 (1962), the employee defendant was an officer of the plaintiff corporation who made use of confidential information involving an improved version of a valve in establishing a directly competitive concern. The California Court of Appeal held that where a person is employed to design improvements to a product of his Company or to design new products for his Company and he does so, he may not use the results of his work for his own use and benefit and certainly not to the detriment of the Company.

3. When an employee is hired specifically to invent a particular device or process, the law will invariably require him to assign patent and exclusive rights to the Company. In Sequoia Vacuum Sys. v. Stransky, 229 Cal. App. 2d 281 (1964), the California Court of Appeal held that an officer and director of a corporation abused his position of trust and confidence when he gave the design and production of a vacuum system for which he had responsibility to a competing corporation which he had established secretly.

OWNERSHIP TO EMPLOYEE INVENTIONS WHEN THERE IS AN APPLICABLE WRITTEN AGREEMENT

Although State common law allows a Company to obtain rights in employee inventions, absent an express written agreement, most companies concerned about ownership of employee inventions have been relying more heavily upon express written contracts to allocate patent rights. An employment agreement in which
the employee agrees to assign his rights and interests in inventions to his Company can simplify the problems that arise with employee inventions. Such written agreements supersede the common law.

These agreements typically assign all of the inventor’s patent rights to the Company. They often contain clauses requiring the employee to disclose inventive activity and assist the Company in securing patent rights. Such agreements are usually intended to accomplish the legitimate purpose of prohibiting an employee from using for his or her own benefit, or for the benefit of a subsequent company, any inventions resulting from the resources provided by or work performed for a previous employer.

Invention ownership agreements should be a routine part of the hiring process. It is recommended that Companies require that all employees sign such agreements, or at least those employees who may in the course of their employment contribute new designs, ideas or solutions to problems that may result in unique inventions. It may be necessary to include a provision for additional consideration (e.g., a onetime bonus or salary increase) if current employees, rather than new employees, are requested to execute this type of agreement.

These agreements may include reasonable post-termination clauses, which require an employee to assign inventions or ideas conceived for a period of time after the employment is ended or before the employment began. A two-year trailer clause has generally been found acceptable, but anything in excess of two years may raise doubts as to enforceability.

Still, these agreements must be fair to both parties because courts may refuse to enforce agreements found to be overly broad, unconscionable, and overreaching. Agreements requiring the transfer of all ideas, innovations and creations made in the scope of the Company's business, regardless of whether they were made during normal working hours or on company premises, have been found to be valid. On the other hand, those requiring the assignment of everything an employee does, even if it has no relation to the Company's business, are generally invalid.

A number of states have statutes that limit a Company's ability to require employees to assign "off duty" inventions to the Company. For example, under California law, any written agreement obligating the employee to transfer invention rights to the Company must notify an employee that the agreement does
not apply to inventions that qualify under California Labor Code section 2870. In essence, California Labor Code section 2870 provides that the employee is not required to assign any inventions for which no property of the Company was used; that were developed entirely on the employee’s own time; and that do not relate to the business, research, or development of the Company, or do not result from any work performed for the Company.

In distinct contrast to Japanese law, when an employee in the U. S. assigns invention rights to his Company in accordance with a written employment agreement, the Company is not obliged to pay the employee any compensation above his regular salary. By comparison, in Japan, employers are legally obligated to pay the employee/inventor an amount of compensation calculated by reference to a reasonable estimate of the profits that the Company might earn from the invention. With this in mind, many Japanese Companies draft detailed provisions in employment agreements relating to employees’ compensation for inventions in order to clarify the extent of compensation to be paid to employees who create inventions. Similar-type provisions generally will not found in U.S. employment agreements concerning inventions unless the employee negotiated that such compensation would be paid.

SAMPLE CONTRACT LANGUAGE FOR DISCLOSURE AND ASSIGNMENT OF EMPLOYEE INVENTIONS

There is no “formal” document for agreements concerning ownership of employee inventions. These contractual arrangements between the employee and his Company could be a stand-alone, included in an agreement that also covers confidentiality of information and non-competition, or even be included in a general employment agreement. An example of an assignment of inventions provision for an employment agreement follows:

DISCLOSURE AND ASSIGNMENT OF EMPLOYEE INVENTIONS

(A) As used in this Agreement, the term "Inventions" shall mean and include all procedures, systems, machines, methods, processes, uses, apparatuses, compositions of matter, designs or configurations, computer programs of any kind, discovered, conceived, reduced to practice, developed, made, or produced, or any improvements to them, and shall not be limited to the meaning of “Invention” under the United States patent laws. Employee agrees to disclose promptly to the Company any and all Inventions, whether or not patentable and whether or not
reduced to practice, conceived, developed, or learned by Employee during his/her employment with the Company or during a period of one hundred twenty (120) days after the termination thereof, either alone or jointly with others, which relate to or result from the actual or anticipated business, work, research, investigations, products, or services of the Company, or which result, to any extent, from use of the Company's premises or property. Employee acknowledges and agrees that the Company is the sole owner of any and all property rights in all such Inventions, including, but not limited to, the right to use, sell, license or otherwise transfer or exploit the Inventions, and the right to make such changes in them and the uses thereof as the Company may from time to time determine. Employee agrees to disclose in writing and to assign, and Employee hereby assigns, to the Company, without further consideration, Employee’s entire right, title, and interest (throughout the United States and in all foreign countries) free and clear of all liens and encumbrances, in and to all such Inventions, which shall be the sole property of the Company, whether or not patentable. The Company shall reimburse Employee for reasonable out-of-pocket expenses, such as travel, food and lodging incurred by Employee in providing such cooperation. This Agreement does not apply to any Inventions:

   (i)   for which no equipment, supplies, facility, or Confidential Information of the Company were used;
   (ii)  which were developed entirely on Employee’s own time; and
   (iii) which do not relate at the time of conception or reduction to practice to the Company's current business or its actual or demonstrably anticipated research or development, or which do not result from any work performed by Employee for the Company. Employee hereby certifies that he/she has no continuing obligations with respect to the assignment of inventions or rights to Inventions, nor does Employee claim any previous, unpublished Inventions within the scope of this Agreement as his/her own, except for the Inventions, if any, which are listed on Exhibit A to this Agreement.

(B) Employee further agrees to reasonably cooperate with the Company, both during and after employment in obtaining and enforcing patents, copyrights, trademarks, and other protections of the Company’s rights in and to all such Inventions, writings and other works. Without limiting the generality of the foregoing, Employee shall, at any time during or after employment with the Company, at the Company’s request, execute specific assignments in favor of the Company or its nominee of Employee’s interest in any of the Inventions, or other works covered by this Agreement, as well as execute all papers, render all
assistance, and perform all lawful acts which the Company considers necessary or advisable for the preparation, filing, prosecution, issuance, procurement, maintenance or enforcement of patents, trademarks, and other protections, and any applications for any of the foregoing, of the United States or any foreign country for any such Inventions, writings or other works, and for the transfer of any interest Employee may have therein. Employee shall execute any and all papers and documents required to vest title in the Company or its nominee in any such Inventions, writings, other works, patents, trademarks, applications and interests.

(C) In the event that Employee is not employed by the Company at the time Employee is requested to perform any act or execute any document under Paragraph (B), the Company shall pay to Employee ______ dollars ($____) for the execution of each such document and _______ dollars ($___) per day for each day or portion thereof spent at the request of the Company in the performance of acts pursuant to paragraph 4(B), plus reimbursement for any out-of-pocket expenses incurred by Employee at the Company’s request in such performance.

(D) Employee represents, warrants and agrees that Employee has disclosed to the Company all continuing obligations which Employee has with respect to the assignment of Inventions to any previous employers, and Employee claims no previous unpatented Inventions as his/her own, except for those which have been reduced to practice and which are shown on Exhibit A hereto. Employee acknowledges and agrees that the Company does not seek any confidential information that Employee may have acquired from a previous employer, and Employee will not disclose any such information to the Company.

(E) Remedies. Employee acknowledges and agrees that the business of the Company is highly competitive, and that violation of any of the covenants provided for in this Agreement would cause immediate, immeasurable and irreparable harm, loss and damage to the Company not adequately compensable by a monetary award. Accordingly, the Employee agrees, without limiting any of the other remedies available to the Company, that any violation of said covenants and agreements, or any of them, may be enjoined or restrained by any court of competent jurisdiction, and that any temporary restraining order or emergency, preliminary or final injunctions may be issued by any court of competent jurisdiction, without notice and without bond. Additionally, Employee agrees that if he/she violates any of said covenants and agreements, he/she shall be liable for the Company’s resulting economic damages, including, but not limited to, lost
Employee agrees that any violation of any of the covenants and agreements provided for in this Agreement shall result in a contractual penalty of _____ dollars $____ for each violation. In the case of Employee’s continuing violation of any of the covenants and agreements provided for in this Agreement, the contractual penalty shall be an additional _____ dollars $____ per month. Employee's liability for additional damages caused by his/her violation is not covered by these contractual penalties.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.