

## **WHO OWNS THE INVENTION?**

Val H. Stieglitz  
Nexsen Pruet Jacobs & Pollard, LLC  
1441 Main Street, Suite 1500  
Post Office Drawer 2425  
Columbia, South Carolina 29202  
Telephone: 803-253-8262  
Telefax: 803-253-8277  
E-Mail: vstieglitz@npj.com

Inventions are wonderful things. Inventions can become patents, which can have significant commercial and competitive value. Inventions, and patents, are even better if you own them. In fact, if you happen to be a business, it can be disastrous not to own a particular invention and patent. Thus, the issue of how your business client can obtain and maintain ownership of inventions and resultant patents is potentially critical. This question has, of course, a myriad of highly technical and/or highly murky areas, but the purpose of this presentation is to outline the major considerations involved in counseling the business client on this subject.

### **What is an Invention?**

The starting point is to define an invention, since only true inventions are patentable. The legal definition of an invention has been the subject of countless cases, and has been phrased in many ways. Basically, an invention is the application of an abstract principle; often called “reduction to practice.” The Patent Act restricts the subject matter of patents to processes, machines, manufactures, compositions of matter, and improvements thereof. 35 U.S.C. § 101. Ideas alone are not patentable.

The Patent Act lists several requirements in order for a process, machine, manufacture, composition, or improvement to qualify as an invention. First, it must be useful. 35 U.S.C. § 101. This requirement insures that the limited monopoly provided by a patent rewards only those inventions that benefit the public. Second, it must be novel. 35 U.S.C. § 102. This requirement

insures that the applicant for the patent is really the first, and therefore true, inventor of the invention. Third, it must be nonobvious. 35.U.S.C. § 103. This requirement insures that the invention truly is an invention - that is, the inventor must have done something that an ordinary practitioner in the field could not have accomplished.

### **Why Does it Matter Who Owns the Invention?**

This is an easy question. The owner of the invention - the inventor - gets to patent the invention. A patent gives the patent owner exclusive rights to make, practice, or sell the invention, for up to 20 years from the filing date for the patent. The owner of the patent may exclude all others from making or selling the invention. A basic principle of patent law is that a corporation - or any other non-human entity - cannot be an inventor. A corporation can invent nothing. Human beings invent things. Thus, only human beings can apply for and obtain patents.

The problem arises, therefore, when an employee of your business client invents something patentable, which relates to your client's business. Your client naturally wants to obtain control of the invention and the patent and use it in furtherance of the business. But the employee-inventor may have other ideas. Because a patent is personal property, and confers to its holder exclusive rights to make, use, and sell the subject of the patent (which includes the right to license others to use the subject of the patent), for a period of twenty years, the employee may wish to control the patent and license or sell it for his/her own profit. Imagine the employee-inventor licensing the technology of the patent to a competitor of the employer-corporation, and the problem becomes immediately apparent.

Thus, the importance of owning the patent lies in the right to control use of the subject of the patent. This is why it matters. Fortunately for business entities, while they cannot be inventors, they can become owners of patents.

**What can the Employer-Corporation do to Obtain and Maintain Ownership of the Patent?**

Mere employment of the employee/inventor does not confer ownership rights upon the employer. In fact, the inventor is presumptively the owner of the patent. Thus, the business that does nothing, under the assumption that it will automatically own whatever patents derive from its employees' inventive work, may be in for a big surprise. An employer may obtain ownership of the patented invention, however, by:

A) Assignment: A business may acquire ownership of a patent through a contractual assignment of the patent by the employee-inventor to the business. Patents have all the attributes of personal property, and thus may be sold or licensed. 35 U.S.C. § 261. Prior assignment provisions may be included in employment agreements, or may be used as stand-alone agreements. A prior assignment will typically provide to the effect that all discoveries, ideas, inventions, concepts, research, processes, methods and improvements that are conceived, developed, or otherwise made by the employee, alone or jointly with others, shall be the sole property of the employer/business. Like any other contract, the assignment must be supported by adequate consideration, and is subject to all the other legal principles applying to contracts. The issue of consideration may become important where an employer seeks to introduce an assignment agreement mid-stream in the inventor's employment. Just as some jurisdictions hold that the mere continuation of employment is not sufficient consideration to support a covenant not-to-compete, query whether mere continued employment would suffice to support an agreement to assign all inventions, patents, etc. A valid assignment divests the employee-inventor of title in the patent, and of all right to control use, sale, or licensing of the patent or the invention.

Any instrument that transfers ownership of a patent must be in writing. 35 U.S.C. § 261. Also, the instrument must be recorded in the United States Patent and Trademark Office within three months of the transfer. 35 U.S.C. § 261.

B) Inventing Is Part of the Employee's Job: Mere employment does not give the employer ownership of the employee's invention. Assume that the employer neglected to put into place assignments that would provide such rights. Is the employer completely out of luck? Can the employee-inventor walk across the street and sell or license the patent on the invention to his employer's competitor?

Not necessarily.

The employee may still own the invention if the inventor-employee was hired to, in essence, invent. This basis for ownership has developed through case-law, and is now well-recognized. As one oft-quoted case has described it:

Even if there is no contractual agreement, the employer owns the invention if 1) the employee is "hired to invent, accomplish a prescribed result, or aid in the development of products, or 2) the employee is set to experimenting with the view of making an invention and accepts payment for such work." Liggett Group, Inc. v. Sunas, 30 U.S.P.Q.2d 1678, 437 S.E.2d 674 (N.C. App. 1993).

Thus, the status and job duties of the employee-inventor can become important in determining ownership of inventions/patents. A business that does not have assignment mechanisms in place may assert that it nevertheless owns the invention/patent by virtue of the responsibilities of the employee-inventor: the argument would be that the employee was paid to do precisely the sort of work that culminated or resulted in the invention.

Note that there are two prongs to this analysis, and the employer may try to fit within one or both. The first prong involves situations in which the employee was explicitly "hired" to invent. The second involves the situation in which the employee was not originally hired to

invent, but at some point in time was “set to” experimenting, with the goal of an invention. In Liggett, a manager (who was not “hired” to invent) invented a new process for quick-aging tobacco. The manager obtained a patent and began contacting Liggett’s competitors to attempt to license the process. In a contest over whether the employee was required to assign the resultant patent to Liggett, the employer asserted that the manager had been “set to” the experimentation that resulted in the invention, and therefore was not entitled to sole ownership of the patent on the process (Liggett had no assignment contract in place). The Court reversed a summary judgment on this issue in favor of the employer, finding that this determination involved weighing a multitude of facts and inferences, making summary judgment inappropriate. The issue was whether the manager had “reduced to practice” the idea for the quick-aging process before or after Liggett directed him to work on the process. The Court concluded that “establishing the exact moment an invention comes into existence is ordinarily difficult and best left to the finder of fact.”

The lesson in this case is that it is not desirable to rely on the “hired to invent” doctrine to obtain ownership of employee-patents. As with any litigation, there are too many uncertainties for this to be a sound business practice. Putting assignment mechanisms into place is far preferable. At this point, this subject begins to flow into the area of employment contracts, and the best team to draft valid patent assignment documents are an IP lawyer and an employment lawyer familiar with the requirements for valid employment agreements in the particular locality.

***Even if the Employer Cannot Obtain Ownership, Can it Obtain a Right to Use the Invention?***

The first preference of the business is to acquire ownership of the invention/patent, either through assignment or through the “hired to invent” doctrine. The next best thing, though, is to obtain the right to use the invention. Under common-law equitable principles of “shop rights,” an

employer may be entitled to use an invention patented by an employee, under an implied, non-exclusive, royalty-free license. Shop rights do not arise automatically out of the employment relationship, however. The elements that give rise to shop rights have been framed many ways by many courts, and there is no bright-line test for determining when shop-rights arise. All the circumstances surrounding development of the invention are relevant. Factors that courts look to include whether the employee used his employer's time, facilities, and materials to achieve a specific result, actions or inaction by the parties suggesting agreement on the question of use of the invention, and use of company trade secrets.

Representative cases discussing the creation of shop rights are: United States v. Dubilies Condenser Corp., 289 U.S. 178 (1933); McElmurry v. Arkansas Power & Right Co., 995 F.2d 1576 (Fed. Cir. 1993); Aetna-Standard Engineering Co. v. Rowland, 493 A.2d 1375 (Penn. Sup. Ct. 1985); Great Lakes Press Corp. v. Froom, 695 F.2d 1440 (W.D. N.Y. 1987); Wommack v. Durham Pecan Co., 715 F.2d 962 (5<sup>th</sup> Cir. 1983); Franklin v. Guilford Packing Co., 695 F.2d 1158 (9<sup>th</sup> Cir. 1983). The McElmurray case is considered the leading case in this area. The employer essentially makes an equitable argument based on all the facts, and hopes the Court will at least let it continue using the patent. Shop rights do not convey title to the patent, though, and the employee-inventor may still license the patent to others.

Once again, the message is to counsel your business clients to install and utilize assignment mechanisms, to avoid having to resort in the future, potentially at a time of crisis when an employee is trying to license critical technology to a competitor, to the uncertain protections of "hired to invent" and "shop rights."