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Employees' Inventions

Who Owns What Rights?

By Julie Holloway

What rights does an employer have in an employee's patent? The short answer is, it depends. The employer may have a right of assignment — that is, a right to outright ownership of the patent. Another possibility is a so-called "shop right," in which the employee owns the patent, but the employer has a non-exclusive, non-transferable license to use the invention in its business. There is also a distinct possibility that the employer has no rights whatsoever in the patent.

Often, when an employee is hired for a position that may entail inventive work — such as tasks completed as an engineer or research scientist — the employment agreement includes a clause relating to assignment of inventions. Typically, the employee agrees to assign to his employer all inventions that he develops during his employment that relate to his work, or, more broadly, to the employer's business. Agreements of this kind are typically enforceable. "The right of an employer to contract for patentable discoveries made by its employees within certain limits is well recognized." *Guth v. Minnesota Mining and Mfg.*, 72 F.2d 385, 387 (7th Cir. 1934). However, terms of an agreement that are overreaching are not enforceable. For example, a term that requires assignment of an invention conceived after the inventor is no longer an employee may not be enforceable. *Id.* at 388-89. As another example, if a former employee develops improvements on patented inventions that he had assigned to his former employer, the latter may have no rights in any patents on the improvements. *Crites v. Radtke*, 28 F.Supp. 282 (S.D.N.Y. 1939).

What happens when there is no written assignment agreement? The answer depends on the nature of the employment contract. Unless the contract of employment imposes an obligation to assign, either expressly or by implication, the employer does not have a right to ownership of the invention. The general rule is that an employee's invention belongs to the employee. As the Supreme Court stated more than 100 years ago, "An employee … may exercise his inventive facilities in any direction he chooses, with the assurance that whatever invention he may thus conceive and perfect is his individual property." *Solomons v. United States*, 137 U.S. 342, 346 (1890). For example, in *Hapgood v. Hewitt*, the inventor, Hewitt, had been hired as a superintendent of the manufacturing department of a plow manufacturer, Hapgood and Co. *Hapgood v. Hewitt*, 119 U.S. 226 (1886). In the course of his work, he developed an improved plow design. He later left the company, patented the improvements he had developed at Hapgood and Co., and threatened to sue the company for patent infringement. The Supreme Court found that, because there was no agreement requiring Hewitt to assign his patent to Hapgood, the company had no rights in the invention.

Exceptions to the Rule

The exception to the general rule is that, when an employee is specifically hired to "devise or perfect an instrument, or a means for accomplishing a prescribed result," he cannot claim ownership of that which he was hired to invent. *Solomons*, 137 U.S. at 346. "That which he has been employed and paid to accomplish becomes, when accomplished, the property of his employer. Whatever rights as an individual he may have had … he has sold in advance to his employer." *Id.* For example, in *Standard Parts Co. v. Peck*, 264 U.S. 52 (1924), the employee, Mr. Peck, was hired to develop improved machinery for auto parts. The contract contained no express assignment provision. However, the Supreme Court found that because Peck was specifically employed to invent the improvements, "his patents therefore belong to his employer, since in making such improvements he is merely doing what he was hired to do." *Id.* at 240. In other words, an employee who is specifically hired to invent has an obligation to assign implied by his employment contract.

An employee who is hired for a job that is focused on developing improvements, and who is assigned to make such improvements, may be similarly deemed to have an implied obligation to assign inventions that he

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develops in the course of his work. *Goodyear Tire and Rubber Co.v. Miller*, 22 F.2d 353, 356 (9th Cir. 1927). The *Goodyear* court saw "no distinction between a case where one is originally employed for the limited purpose of solving a specific mechanical problem and another case where he is employed generally to concern himself with such problems and … is assigned to a specific one. In either case the fruits of his endeavor belong to his employer." *Id*.

If, on the other hand, the employment is "general," courts are reluctant to imply an obligation to assign. The Supreme Court has held that a skilled worker who is hired generally to make and improve a company's products does not have an implied obligation to assign his inventions developed in the course of that work. *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187-88 (1933). That is, according to the Supreme Court, employment to *design* is not employment to *invent*. *Id*. The question of whether there is an implied obligation to assign arises only when an employee develops an invention related to and in the course of his employment. Obviously, an employee who is merely "employed for a general service," and makes an invention "on the side, outside of his line of duty," has no implied obligation to assign. *Goodyear*, 22 F.2d at 356.

'General' or 'Inventive'?

Whether the employment is "general" is sometimes difficult to determine. In *Gear Grinding Machine Co. v. Stuber*, a draftsman was hired to make drawings of a design for a universal joint. *Gear Grinding Mach. Co. v. Stuber*, 276 N.W. 514 (Mich. 1937). While so employed, he conceived of an improved universal joint design, perfected it in his spare time, and patented it. As a draftsman, his employment was general, and he therefore had no obligation to assign the patent. A closer case is presented by *Barlow and Seelig Manufacturing Co. v. Patch*, 286 N.W. 577 (Wis. 1939). In *Barlow*, the employee, an engineer, was hired for routine production supervision, but was relieved of those routine duties when he "came to be regarded as a mechanical genius, engineer and designer." *Id*. at 579. His employer sought assignments of patents that were filed by the employee on inventions he developed in the course of his work. However, according to the *Barlow* court, there could be an obligation to assign only by written agreement or "by clear implication from the character of the employee's duties." *Id*. The *Barlow* court found that under these circumstances, there was no such clear implication, and thus no obligation to assign.

Absent any express or implied right of assignment, an employer may still have a "shop right" —a limited license to use the patent in his business. When an employee "uses the property of his employer and the services of other employees to develop and put into practicable form his invention," he may be deemed to "have given to such employer an irrevocable license." *Solomons*, 137 U.S. 342, 346. Courts have frequently held that a shop right arises only if the inventor reduced the invention to practice on his employer's time, using his employer's materials and resources. *See*, *e.g.*, *Dovel v. Sloss-Sheffield Steel & I Co.*, 139 F.3d 36 (5th Cir. 1954).

The 'Shop Right' Implied License

The "shop right" implied license is irrevocable and royalty-free, but it is limited: It is not transferable, and is typically limited to the specific business use for which the invention was developed. These limitations often make a shop right far less useful than a right of assignment. For example, as discussed above, in the *Hapgood* case the former employer, Hapgood and Co., unsuccessfully sought assignment of the patent that Hewitt had obtained on plow improvements. Because Hewitt had developed the improvements while employed by Hapgood, using Hapgood's time, workers and materials, Hapgood was entitled to a shop right. However, Hapgood no longer existed: The corporation had dissolved, and its stockholders had organized a new corporation. *Hapgood*, 199 U.S. at 234. To the extent Hapgood had a shop right, it was "confined to that corporation, and not assignable by it." *Id*. The new corporation therefore had no shop right, and Hewitt was free to assert his patent against the new corporation for manufacturing the plows he had designed for Hapgood and Co.

Conclusion

In sum, an "inventive" employee who is employed for the purpose of developing a product or process, or to solve a particular problem, has an implied obligation to assign any resulting patents to his or her employer. However, the question of whether employment is general or inventive is often a close one, and different courts have reached different conclusions on very similar facts. It is unsafe for an employer to rely on an implied obligation to assign. Furthermore, an employer cannot be certain of having even a shop right. Thus, an employer who wishes to be certain of having rights in its employees' inventions should include an express assignment clause in employment contracts.