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Protecting Innovation

The Impact of Employer-Employee Relationships on Patent Ownership

By Susan Gorman, Ph.D., Esq.

Patent ownership is a powerful competitive tool that has the potential to protect a business' position in the marketplace and keep competitors at bay. Companies must protect the investment that they make in hiring employees to develop new technologies and solutions for problems in the marketplace. As a result, when employees develop new innovations, the answer to the question of who owns the resulting patent often rests in the employment agreement.

Typically, inventors are presumed to be owners of a patent unless they are employees. If they are employees, then an employment agreement may shift ownership to the employer. There are a couple of ways in which this can happen.

Depending on the language in the employment agreement, the employee inventor may be required to assign all inventions made in the course of their employment to the employer. A typical agreement requires the employee to:

(1) Assign all patent rights in consideration of his or her employment
(2) Promptly disclose all inventive ideas
(3) Assist the employer in preparing all of the necessary paperwork for filing the patent application
(4) Maintain adequate records.

Patent rights are assigned via an assignment document, which is a legal document that essentially sells the patent application, or patent, and transfers a party's entire ownership interest to another party. Frequently, companies will also "pay" their employees at least some nominal amount (frequently $1.00 or $10.00) when an assignment document is signed. Ownership is then permanently and irrevocably transferred to the named party. Assignments can result in transfer of ownership to a company or to a single individual.

Even without executing an assignment document, ownership may still vest with the employer. Under the Federal law which governs U.S. patent assignments, when an employee expressly grants an employer all rights in future inventions, then no further act or document is required and the rights in that invention immediately vest in the employer at the time that the invention is conceived and comes into being. [1]

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But the exact language in the employment agreement is critical. An employment agreement with the phrase "to assign" may not provide immediate company ownership while the phrase "hereby assigns" likely will.

There are other considerations that must also be examined before determining whether an employer or an employee has ownership of an invention based on an employment agreement and whether or not an assignment document is required.

For example, whether the employee was "hired to invent," whether the subject matter was related to the employee's job, where the invention was worked on, who owned the components or reagents used in developing the invention, etc.

In California, if an invention was made using employer time or resources, relates to the employer's business or actual/demonstrably anticipated research and development, or resulted from work performed by the employee for the employer, then the invention is likely owned by the employer.[2]

As an example, consider that person A is working at a university/company and being paid exclusively by a grant funded by the National Science Foundation. Person A's research relates to signal transduction via a cell-surface receptor and person A is identifying the genes/proteins involved in the signal transduction pathway. But person A is also a passionate video-gamer and has an incredible idea for a new game that is unlike anything on the market. Even better, it could work as an application on mobile platforms. Person A works at home on the weekends on a personal computer to develop the game and files a patent application. In this scenario, person A could well have ownership rights even if the employment contract requires disclosure and assignment of all inventions because no university/company resources (lab space, computer power, consumables, etc.) were used in developing the game app and the game app has no direct correlation with person A's research.

But what if person A conceives of some novel chemical compound that binds to an intermediate in the signal transduction pathway and interrupts signal transduction, and then tests this compound in the laboratory? Here, the university/company will likely succeed in obtaining ownership rights because the work was conducted on university/company premises with university/company reagents and resources and was a direct result of person A's research. Consequently, for entrepreneurs perfecting their invention while working for a company or university it is critical to consider where ownership of the new invention lies before beginning a new business.

While it seems apparent that an inventor would be the owner of an invention, scenarios like these demonstrate that the answer is not always clear. Understanding what to look for in an employment agreement to determine ownership can increase the potential for a new business' success, as well as reduce overall legal costs.

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Intellectual property is the single most valuable asset of any business. It is a source of revenue, a key to accessing new markets, and a way to improve upon existing product lines. To protect the innovation at the core of your business, make sure you conduct a comprehensive assessment of all your intellectual property early and often. By analyzing your IP from both a legal and business perspective, companies can transform their existing intellectual property into a powerful competitive tool and better position themselves to take advantage of ongoing innovation.

Dr. Susan Gorman, Ph.D., Esq., is principal of Gorman IP Law, a law firm focused on helping companies leverage intellectual property assets to maintain a competitive advantage, enhance market share, plan for growth and better manage resources and expenses. Through a proprietary process, Gorman IP Law helps businesses build a formal IP strategic plan that defines your business goals, establishes benchmarks and allows you to better project costs. Dr. Gorman can be reached at susan.gorman@gormaniplaw.com.

[1] *DDB Technologies, L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008).

[2] *Cadence Design Sys., Inc. v. Bhandari*, No. 07-00823, 2007 WL 3343085, at *5 n.4 (N.D. Cal. Nov. 8, 2007)