



FACULTY OF LAW  
University of Lund

Karin Reinholdsson

Ownership of employee inventions -  
regulation in Sweden, the United  
Kingdom and the United States

Master thesis  
20 credits

Professor Lars Gorton

Patent law

Autumn 2002

# Contents

<b>SUMMARY</b>	<b>1</b>
<b>ABBREVIATIONS</b>	<b>3</b>
<b>1 INTRODUCTION</b>	<b>4</b>
1.1 Background	4
1.2 Purpose	4
1.3 Delimitations	5
1.4 Method and material	5
1.5 Disposition	6
<b>2 THE SWEDISH LEGISLATION CONCERNING EMPLOYEE INVENTIONS</b>	<b>7</b>
2.1 Introduction	7
2.2 Lag (1949:345) om rätten till arbetstagares uppfinningar	9
2.2.1 Ownership	9
2.2.2 Employer's operation	11
2.2.3 Notification	12
2.2.4 Compensation	13
2.2.5 The reduction rule	15
2.2.6 Disputes	16
2.3 Collective agreements	16
<b>3 THE UK LEGISLATION CONCERNING EMPLOYEE INVENTIONS</b>	<b>18</b>
3.1 Introduction	18
3.2 Employee's position at common law	19
3.3 Patents Act 1977	20
3.3.1 Normal duties	22
3.3.2 Invention likely to result?	23
3.3.3 Special obligations	23
3.3.4 Compensation	24
3.3.4.1 Common requirements	25
3.3.4.2 Inventions belonging to the employer	26
3.3.4.3 Inventions belonging to the employee	28
3.3.4.4 Disputes	29
3.3.5 Employee – employer contracts	29
<b>4 THE US LEGISLATION CONCERNING EMPLOYEE INVENTIONS</b>	<b>31</b>
4.1 Introduction	31
4.2 The law governing employee inventions	34
4.2.1 Introduction	34

4.2.2 Default rules	36
4.2.2.1 Introduction	36
4.2.2.2 Specific inventions	38
4.2.2.3 General inventions	39
4.2.2.4 Independent inventions	42
4.3 Employee – employer contracts	43
4.4 State statutes	46
4.5 Compensation	48
4.6 Criticism of the law governing employee inventions	49
<b>5 CONCLUDING REMARKS</b>	<b>51</b>
<b>BIBLIOGRAPHY</b>	<b>54</b>
<b>TABLE OF CASES</b>	<b>57</b>

# Summary

This essay presents the reader with an insight to how Sweden, the UK and the US deal with matters concerning inventions created by employees. It provides information on how employee inventions are categorized, which type of employee inventions belong to the employer, what right the employer has in these types of inventions, what or if he is obliged to compensate the employee and how contracts between employers and employees are handled. How the different countries regulate these matters are described, analyzed and compared.

The first country the essay depicts is Sweden. Rules concerning the right to employee inventions are collected in LATU (lag om rätten till arbetstgares uppfinningar). Most of the provisions in LATU are non-mandatory but it is not possible for an employer to contract away from the employee inventor's right to be compensated

The employee inventions are divided into three categories. The employer has different rights in the employee invention depending on how/and if the invention is connected to the operations of the employer. Establishing if an invention falls within the "operations of the employer" can prove especially difficult if the employee is employed in a concern.

After the explanation of the system in Sweden the reader is provided with a description of how the UK handles matters regarding the ownership of employee inventions and this system has many similarities to the one in Sweden.

In the UK, the employer can take over employee inventions in two situations. The employer has this right when an invention is created in the course of the employee's duties and was reasonably expected to result, and also when the inventor because of his position in the company owes a special obligation to the company which employs him. The rules governing employee inventions are stated in the Patents Act 1977.

The Patents Act provides the employee with a right to be compensated by the employer. Certain requirements have to be fulfilled if the employee should have a right to be compensated. The employee has to be employed either in the UK or by an employer who has a place of business in the UK and the invention for which compensation is to be paid has to have been granted a patent.

After the description of the legislation in the UK, focus is turned to the system in the United States which in many ways is different from those in Sweden and the UK.

The employee inventors may be obligated to assign their patents to their employers because of an obligation arising from an implied agreement

created when the employee was hired to invent, or from the so-called “fiduciary duty” which employees in high-ranking positions owe to their employer.

Who initially receives the title to a patent is stipulated in federal common law. Employment status is determined by state law. The rights to employee inventions are generally governed by two types of rules: default rules or employee-employer contracts. Because of the uncertainties involved with applying the common law rules, most employer in the US use express contracts to allocate patent rights. The employers are free to contract around the common law rules but there are eight states which have passed legislations that limit the possibilities to make these types of contracts. The aim of the state statutes is so prevent employees from taking advantage of their unequal bargaining power.

As in Sweden, employee inventions are in the US divided into three categories: 1) Specific inventions, 2) General inventions and 3) Independent inventions, and the employers have different right according to which category the invention fall under.

All these facts are more deeply described below. After explaining these three systems, the essay will be concluded in a chapter where the systems are analyzed and compared.

# Abbreviations

the Act	Patents Act 1977
AD	Arbetsdomstolen
IP	Intellectual Property
LATU	Lag (1949:345) om arbetsgivares rätt till arbetstagares uppfinningar
PatL	Patentlagen 1967:837
PRV	Patent- och registreringsverket
R&D	Research and Development
SCA	Svenska Cellulosa Aktiebolaget
UK	United Kingdom
US	United States of America

# **1 Introduction**

## **1.1 Background**

Disputes may arise as employees and employers work together to make their common venture a success regarding the ownership of ideas, secrets and inventions that are generated by the employees. These matters are important to the parties in view of the fact that they may be of substantial value to the immediate employment and therefore claimed by the employer or they may be important to the employee's future career opportunities and thus claimed by the employee.

The law, which most commonly resolves the area of ownership of employee inventions, is the law of intellectual property although the area "touches" other legal fields such as contract law and labour law. In accordance with the traditional labour law, the employer owns everything that the employees create. The employer does not have to pay any compensation to the employee for intellectual achievement created at work, because the employee is considered being adequately compensated through his or her salary. This is however, usually not the case and the reason for that is the legislation on ownership of employee inventions, which however is not similar in all countries. The person who has made an invention and has succeeded in obtaining a patent will have the sole right to exploit the invention and the possibility to make money of it. Here we can see a conflict between labour law and intellectual property law. The legislation on intellectual property gives the individual the right to its patented invention; it does not distinguish between employees and non-employees. A solution to the conflict has, however been to formulate separate rules for employee inventors (the rules are generally incorporated in the legislation on patents or IP in general). By these rules, employee inventors are treated differently than "free" inventors. The employee inventor's right to his or her inventions is in some circumstances limited. These rules work as a kind of a "middle way" between the employers' right according to labour law and the rights of the employee inventor provided through IP law. This essay is a description of how this conflict is solved in different countries and their provisions on the subject.

## **1.2 Purpose**

The purpose of this thesis is to describe and compare the manners in which Sweden, the United Kingdom and the United States have chosen to deal with ownership of inventions created by employees.

## 1.3 Delimitations

The idea behind this master thesis came from the patent department at SCA (Svenska Cellulosa Aktiebolaget) in Gothenburg. They needed help with investigating the legislation on ownership of employee inventions and they wanted to learn more about the legal situation in certain specific countries that were of special interest to them. It was, of course, not possible for me to investigate all countries of interest, since that would lead to the essay becoming too extensive. The result is that this essay describes the legal situation in Sweden, the UK and in the US. A reason for me selecting these countries was that when I started working with the essay it proved very difficult to find any relevant material. Another reason for the limitation was the language. I felt that my knowledge in languages, other than my native language and English, was not sufficient to fully comprehend foreign legal texts, and I learned that there is very little material dealing with foreign legislation on ownership of employee inventions written in Swedish or English. Much of the material that I was able to find proved to be outdated. These are the reason for why I choose to describe the regulations of these specific countries.

I am aware that there are areas that are not included in this thesis, or are only mentioned very briefly (for example, collective agreements and the legal situation for contractors and university employees). These areas have by choice been left out because including them would make the essay too wide-ranging. Another reason behind this is that I have tried to put the focus on areas which are of interest to SCA (and university employees are not included in those).

Even though the purpose of this master thesis is to describe and analyze the legislation in foreign countries, it starts with a description of legal situation in Sweden. The reason for this is that I think that the comparison made of the countries, and the essay as a whole, is more interesting for a Swedish reader if he/she is aware of how this area is regulated in Sweden. Another reason is that it would not feel right to write a thesis that does not in any way deal with Swedish law, since that is what I have been studying the last five years.

## 1.4 Method and material

The method used to examine the legal situations in the various countries has been to go through preparatory works, regulations and legal practice. The method used for locating sources of information was mostly traditional library searching. I have been using different on-line search-methods available at libraries, like *Lovisa* and *Libris*. Searching for information on the legal situation in America proved very difficult and resulted in that it took a long time before I could start writing. The literature that I finally found consisted to a great extent of articles from a wide range of law



journals. Most of these articles were found on the Internet, through on-line search-engines like *Westlaw*.

## **1.5 Disposition**

The essay will first describe the legal situation in Sweden. This description is however not as extensive as the ones portraying the systems in the United Kingdom and the United States. The reason for this is that I have tried to “shape” the essay after the desires of SCA. They felt that they already were rather well informed on the Swedish system and were more interested in me describing foreign systems.

In chapter two, the Swedish regulation dealing with employee inventions is described. The subsequent two chapters provide descriptions over the legal situations in the UK and in the US. The structure is different in the various chapters since they follow the composition of each of the regulations explained.

The thesis is completed with final remarks which are thoughts that have struck me when writing, and analysing points gathered when comparing the different legislations of the countries portrayed.

# 2 The Swedish legislation concerning employee inventions

## 2.1 Introduction

A patent can be applied for by the inventor or the person to whom this right has been passed.<sup>1</sup> This right is in Swedish called – upphinnarrätten – and can be assigned through contract or inheritance. The right to an already approved patent – patenträtten – can also be assigned through contract or inheritance.<sup>2</sup> The Patent Law of Sweden (Patentlagen 1967:837), PatL, is based on a rule that stipulates the inventor’s right to his or her invention. When the inventor is an employee, the rules governing ownership of the invention are found in a law that specifically deals with ownership of employee inventions, Lag (1949:345) om rätten till arbetstagares uppfinningar<sup>3</sup> (hereinafter referred to as LATU). This law came into force in 1949 and the reason behind it was to set aside the risk of conflict between employers and employee-inventors. Before LATU came into force, Sweden had no special rules concerning rights to inventions made by employees. The patent legislation did not contain any provisions on this matter. The legal situation before 1949 was that employers had no right to employee inventions if the opposite was not expressly agreed upon or followed from the conditions of employment. It follows from the directions given to the committee responsible for drafting the LATU that there needed to be a reasonable balance between the interests of the employee and of the employer and that the regulation was not to be outlined in a way that hampered the will of employees to invent.<sup>4</sup>

Even though many years have passed since the birth of LATU, only a few of its provisions have been changed. The regulation has been revised twice.<sup>5</sup> Although LATU was drafted several decades ago, it is still quite clear. The only exception to this is article 6. This is the provision dealing with compensation and it has in the past led to lengthy negotiations and discussions on the interpretation of what is to be considered “reasonable compensation”.<sup>6</sup>

---

<sup>1</sup> Article 1 para. 1 PatL.

<sup>2</sup> Kockvedgaard and Levin, pp. 223 and 225.

<sup>3</sup> SOU 1946:21, prop. 1949:101, 2LU 1949:32, rskr 320.

<sup>4</sup> SOU 1946:21 p. 9-10.

<sup>5</sup> SOU 1964:49 and SOU 1980:42.

<sup>6</sup> Sundström, 1997, p. 124.

Most provisions in LATU are non-mandatory<sup>7</sup> with the exception of the parts dealing with the employee's right to compensation and the part which states the employee's right to have inventions made by him more than one year after termination of his employment at his disposal.<sup>8</sup>

In short, the result of LATU is that the employer acquires a right or automatically has a right to utilise those inventions that are patentable in Sweden and reported by employees in his company. This right can be exclusive which would give the employer possibility to exploit products based on the invention, unlimited and in the whole world. The employee has fundamentally the right to be compensated for the right that has been granted to the employer.

Before I go on with describing the Swedish system more in detail, I thought that it might be interesting for the reader to learn something about the legal situations in the Nordic countries. These countries have quite similar legislations and the reason for the similarities is that the countries appointed committees for the purpose of reaching common solutions to problems connected with employee inventions. The work of the committees did not, however, lead to legislation in all the countries. What the cooperation did result in was that Sweden and Norway both divides employee inventions into three categories, that Finland also has three categories but divides the invention differently with the result that the employer has a right to inventions in more cases than in the law of Sweden and Norway, and Denmark does not divide employee inventions at all. The cooperation was not however done all in vain, the regulations in the four countries are all structured much in the same way and many of the provisions are very similar.<sup>9</sup>

Sweden was the first of the Nordic countries to introduce a legislation specifically dealing with matters surrounding employee inventions (LATU from 1949). Denmark came second with their law being established in 1955<sup>10</sup>. The situation before these legislations was that there existed no legislation covering rights in employee inventions in the Nordic countries. The only exception to this was Finland. These provisions were laid down in the Finish Patent Law from 1943.<sup>11</sup>

I shall now give a more detailed description of the contents of LATU.

---

<sup>7</sup> The meaning of the term is that the parts of the law which are non-mandatory (in Swedish- *dispositiva*) can be altered through agreements, i.e. through collective agreements. That is to say, the parties can agree to solve matters differently than the regulation does, including that all inventions should belong to the company.

<sup>8</sup> See article 2 para. 2 LATU.

<sup>9</sup> Godenhielm, NIR, 1978, pp. 178-179.

<sup>10</sup> Loven om arbejdstageres opfindelser lov nr. 142 af 29 april 1955.

<sup>11</sup> Godenhielm, NIR, 1978, p. 179.

## 2.2 Lag (1949:345) om rätten till arbetstagares uppfinningar

### 2.2.1 Ownership

The principle that the employee inventor<sup>12</sup> is entitled to the invention he has developed forms the basis of the law and is stated in article 2, so the principal rule is the same in both LATU and the Patent Law. The employee can however be forced to share his right. The right that LATU gives the employer to utilise patentable ideas of his employees has three levels depending on how the invention is connected to the employer's business and on the assignment of the employee:

1) *If the employee is principally employed to do research or invent and the invention has been created essentially as a result of this business or the invention constitutes a solution to a set, closely specified assignment, which falls within the duties of the employee.*<sup>13</sup> These types of inventions are called *research-inventions*.

In the assessment of what the employee was principally employed to do, it is the conditions at the time of the creation of the invention that are to be regarded.<sup>14</sup> If the utilisation of an invention of this kind, falls within the employer's operations, the employer holds a right to, totally or partially step in as the proprietor to the employee invention. The employer may choose to acquire the sole right to the invention or settle for just a right to utilize the invention in his business (in Swedish - enkel licens).<sup>15</sup> The employer has a right to an "option". That means that the employer is given priority to agree with the employee to acquire the entire, or parts of, the invention. Rights to utilisation in Sweden as well as utilisation abroad can be acquired. The employee is obliged to contribute, so that the employer's acquisition is recognized abroad which makes it possible for him to apply for patent.<sup>16</sup> The transfer of right is established through the employer and employee signing an assignment agreement and then sending a deed of transfer to PRV (Patent- och registreringsverket, the Patent Authority in Sweden).<sup>17</sup>

2) *If the employee, on the other hand, has made an invention in his employment and the invention falls within the operations of the employer, but do not form part of the assignment of the employee.*<sup>18</sup>

---

<sup>12</sup> Article 1 LATU state that the law is not applicable to certain occupational groups, such as teachers and some employees in the Swedish National Defence.

<sup>13</sup> Article 3 para. 1 LATU.

<sup>14</sup> Jacobsson and others, pp. 642-643.

<sup>15</sup> Article 3 para. 1 LATU.

<sup>16</sup> Jacobsson and others, p. 647.

<sup>17</sup> Jacobsson and others, p. 159.

<sup>18</sup> Article 3 para. 2 LATU.

The employer has for these types of inventions, an absolute right to utilise it in his business and he has priority to agree on a more extensive right.<sup>19</sup> If all the other requirements are fulfilled it can be enough to establish a connection between the invention and the employment that the work performed by the employee has given him the idea to the invention. It is thus of no importance if the invention was created during an employee's free time.<sup>20</sup>

3) The third type is *an invention made by the employee which utilisation falls within the employer's operations, but has been developed without any connection with the employment*. In this situation the employer is entitled to an "option".<sup>21</sup>

A fact that is common to all three levels of inventions is that the utilisation of the invention falls within the operations of the employer. Inventions that fall outside the employer's business do not come within the scope of LATU and these types of inventions are at times called "free inventions". An employed inventor is free to do as he pleases with inventions of this kind. He may of course offer the invention to his employer and is in a situation like that acting as a free, independent inventor.<sup>22</sup>

If the employer receives, or chooses to acquire, a right to utilise the employee invention in his business (following article 3), the consequence for the employee inventor is then that he may sell this type of right (*enkla licenser*) in the invention to others.

The transfer of title that the legislation or other rules lead to is definitive, which means that the right belongs to the company and this is the case even if the employee leaves his employment. The right the employee receives through article 3 para. 2, to utilize the invention in his business, may not be assigned by the employer in any other way than together with the business for which it has been acquired. If the employer on the other hand has acquired sole right to the invention and nothing else has been agreed upon, he may licence away his right within the scope of the sole right.<sup>23</sup>

If the employee inventor quits his employment, he/she is accordingly bound to the former employer. It follows from article 7 LATU that if the inventor of a research-invention applies for a patent on the invention within six months after the termination of the employment, and the invention is a research-invention, the same rules apply as if the employment still applied. If it can be showed that it is likely that the invention was made after, the employee terminated his employment it will be his/her own, or possibly that of the new employer. An agreement, which includes a limitation in the employee's right to dispose of an invention concluded more than one year

---

<sup>19</sup> Article 3 para. 2 LATU.

<sup>20</sup> Jacobsson and others, p. 647.

<sup>21</sup> Article 3 para. 3 LATU.

<sup>22</sup> Sundström, p. 127.

<sup>23</sup> Jacobsson and others, p. 638 and Koktvedgaard and Levin, p. 237.

after the termination of the employment, is not valid (this follows from the second paragraph of article 7 which is one of the mandatory parts of LATU).<sup>24</sup>

### 2.2.2 Employer's operation

It follows from the preparatory works that an employee invention, which constitutes a product, falls within the operations of the employer if its production is included in the operations. The same applies if the invention is a method or a special aid for the manufacturing of a product of that kind, or if it constitutes a creation or a procedure which can be assigned to the area in which the employer is carrying out research- or design-work. It is further held that employee inventions can in some circumstances, without belonging to any of the categories mentioned above, still fall within the operations if the employer utilizes them for labour- and material saving purposes, or for purposes of promoting production.<sup>25</sup>

A general rule is that it is only the operations which the employer is engaged in at the time of the creation of the invention that is to be taken into account. The circumstances may not, however, always be clear. It is possible that an employee creates an invention that relates to a product which is not included in neither the employer's production, nor is subject to the research-work in the company. If the invention's production or field of application is closely connected to the employer's products, the invention could be found to fall within the operations of the employer. If the result of the invention could constitute competition to the employer, is an important factor. In a situation where the employer manufactures several diverse types of products that resembles the invention, the employer's operations can be made wider. Such a widening is not appropriate in a situation where the business only includes a few products of that type.<sup>26</sup>

Interesting questions arise when considering that the employer is a concern. If the employee inventor is employed in a concern, how does the requirement of the invention having to fall within the employer's operations work then? Can this area of business then be expanded to signify the operations of the whole concern?

As mentioned above, the decisive factor for if the employee-invention should be considered falling within the operations is the *employee's actual place of work*.<sup>27</sup> This does not; however really answer the question whether also companies outside the employee's employment contract, say; the mother company in the concern, can assert claims in the employee's innovation. If a company run totally different types of businesses, the

---

<sup>24</sup> Article 7 LATU.

<sup>25</sup> SOU 1946:21 pp. 52-53.

<sup>26</sup> SOU 1946:21 p. 53 and Jacobsson and others, p. 640.

<sup>27</sup> SOU 1946:21. 53 and *Kung. M:ts prop* 101/1949. 72.

different lines of businesses can be found to represent one and the same operation in the meaning of the law if the different businesses within the company have evident connection with each other; otherwise they are regarded as separate. A legally independent company with a closely connected factual business (subsidiary companies, marketing companies) can be considered constituting one and the same employer when establishing the “employer’s operations”.<sup>28</sup> This view of the matter seems to be in line with the view of the preparatory works. The preparatory works hold that it can not be assumed that every legal person included in the concern should be regarded as a separate employer.<sup>29</sup>

### 2.2.3 Notification

Article 4 provides that an employee who has created an invention that falls within the firm’s operations is obliged, without delay, to notify the employer about the invention. If the employer wishes to acquire the invention, according to article 3 paragraphs 1 and 2, he has to inform the employee of his intentions within four months from the date he received the notification from the employee. The four month period starts when the employer has received a description of the invention that is sufficiently detailed.<sup>30</sup> Within this four-month period the inventor has the right to apply for a patent on the invention and shall in that case notify the employer of his doings.<sup>31</sup>

If the employer chooses not to acquire right to the invention or does not notify the employee after four months, then the employee is free to exploit it as he pleases. There is no possibility for the employer to change his decision. If it turns out that the employer, on the other hand, is interested in the invention he should then present a plan that stipulates the strategy for the future development and utilisation of the invention. The plan should also specify the aspirations of the employer; if he wishes to obtain a right to utilize the invention in his business, or to obtain an exclusive right in the invention. The employer cannot, at first in the notification inform the employee that he is interested in acquiring a right to utilize the invention in his business and then later expand his wished to obtaining an exclusive license in the invention.<sup>32</sup>

If an agreement cannot be reached within the four months, the result might be that the employee utilizes the invention in a line of business that competes with the employer or licenses it to competitors of the employer. These possibilities are, however, limited through “*the duty to act in good faith*” (*lojalitetsplikten*)<sup>33</sup> which is a duty stipulated in labour law, through

---

<sup>28</sup> Bruun, 1982, p.104.

<sup>29</sup> SOU 1946:21 p. 54.

<sup>30</sup> Jacobsson and others, p. 653.

<sup>31</sup> Article 5 para. 1 LATU.

<sup>32</sup> Jacobsson and others, p. 655 and Sundström, p. 126.

<sup>33</sup> Compare *the duty to act in good faith* with *special obligation* in the UK and *fiduciary duty* in the US.

which the employer owes towards his employee. The employee has to put the interests of the employer first and avoid conflict-situations with him. The duty restricts the employee's possibilities to dispose over the invention; the employee is for example not allowed to compete with the employer without his permission. More demands are put on the employee the higher up in the hierarchy he is employed.<sup>34</sup>

As we can see, there is a conflict between, on one side "the duty to act in good faith" and on the other the employee inventor's right to utilize an invention that falls within the operations of the employer but which the employer has not acquired. This conflict has not been addressed in the preparatory works to LATU. The commentary to PatL holds, however, that also an employee that has created an invention which falls within the operations of the employer must also owe this duty of loyalty towards the employer. The result of this is that an employee that has created an invention of the type in view in article 3 para. 2 LATU cannot demand the employer to pay an unreasonable amount in compensation in exchange for the employer acquiring the right to the invention. If an employee inventor would allow a competing company to utilize the invention and not except the offer from the employer, or exploit it himself, he could in some circumstances be neglecting his "duty to act in good faith". What the employer could do in this situation depends on the value of the invention. The value is, however, not as important if the employee work in a position that presupposes certain trust.<sup>35</sup>

## 2.2.4 Compensation

The employee inventor should be compensated for the costs he has had in connection with the invention.<sup>36</sup> The employee also has a right to be compensation for the right he is forced to assign. If the employer takes over the invention, wholly or partially, the employee has the right to be reasonably compensated, article 6 LATU. (This is the other part of the regulation that is mandatory; the other one is article 7 para 2).

The employee's right to compensation arises when the employer acquires right to the invention. The amount of compensation should be based on the value of the invention, the extent to which the employer has acquired right to the invention and the signification the employment might have had to the development of the invention. The employer is not obliged, according to the law to take initiative when it comes to compensation. It can be gathered from the commentary to the legislation that demands for compensation must be presented by the inventor himself.<sup>37</sup>

---

<sup>34</sup> Jacobsson and others, p. 650 and Adlercreutz, p. 154.

<sup>35</sup> Jacobsson and others, pp. 650-651.

<sup>36</sup> Jacobsson and others, p. 663.

<sup>37</sup> Jacobsson and others, p. 663 and article 6 LATU.



This is the part of LATU that can be intricate to apply. What should be regarded as “reasonable compensation” in different situations? Through the years, a custom has been developed concerning compensation. Despite the differences between different lines of businesses in rewarding compensation to employees, and between industrial companies and State/local government, there is as much collected experience to make it possible to use rules of thumb for the size of compensation. There are also several opinions given by Statens Nämnd för Arbetstagares Uppfinningar, SNAU<sup>38</sup>, which are helpful in giving guidelines on compensation.<sup>39</sup>

The fact that the article on compensation is mandatory has the effect that the reasonableness of compensation agreed upon between the parties before the creation of the invention can be tried in court. This could be the case if the employee has agreed to except that his salary constitutes compensation also for future inventions, or that compensation for inventions shall be decided in a one-sided manner by only the employer. The regulation is not mandatory concerning agreements on compensation that is met after the creation of the invention. These kinds of agreement can however be adjusted if it appears to be unreasonable through §36 in Avtalslagen (the Swedish Contract law).<sup>40</sup>

When the employer has received a right to utilize the invention in his business, the employee should be compensated for the limited value the invention has in the business of the employer. If the employer has been provided with the right to the whole invention, the employee should, naturally, receive compensation in accordance with the total value of the invention.<sup>41</sup>

When assessing the reasonableness of the compensation, it has to be taken into account what significance the invention might have for a product or production process. Assessing a situation where a completely new product is created based only on one single invention is fairly simple. The compensation can then take the form of a share, *royalty*.<sup>42</sup> Another factor to be taken into account is how much the employment has mattered to the creation of the invention, for example the facilities of the employer and his technical equipment.<sup>43</sup> The Court of Labour has tried cases concerning reasonableness of compensation in AD 1982 nr 21 and AD 1983 nr 19.

In Sweden, employee inventors are generally paid in a *single payment*.<sup>44</sup> This system is considered to involve both pros and cons. For the inventor it is stimulating to quickly receive a sum of money. Ordinarily, the development of an invention into a saleable product, take a couple of years. This procedure can lead to a very long wait for royalty since that is paid first

---

<sup>38</sup> For a description of SNAU, see p. 16.

<sup>39</sup> Sundström, p. 128.

<sup>40</sup> Jacobsson and others, p. 659.

<sup>41</sup> L. Sundström. p. 128.

<sup>42</sup> L. Sundström. p. 128.

<sup>43</sup> Jacobsson and others, p. 661.

<sup>44</sup> See however chapter 2.2.5 concerning the reduction rule.

when the product has reached the market. One of the drawbacks, for the employee, with the system of single payment is that he obviously risks being paid less than if he would receive compensation in the form of royalty since it is problematical to assess the value of the invention before it has reached the market. From the employers point of view, there is another disadvantage in that he risks failing with the exploitation of the invention, but has at the same time paid compensation to the inventor.<sup>45</sup>

A third way of paying compensation is a combination of the two systems just described. The system is called *split compensation* and it functions through an amount being paid instantly after the employer has decided to utilise the invention after which, royalty is paid. A variation of the system is situations where agreements have been reached on minimum royalty under the first two of three years. The royalty is then paid immediately as if the product was already on the market. Estimations are based on a minimum sales volume when the product is on the market.<sup>46</sup>

It has been emphasized in the preparatory works and in opinions from SNAU the importance of the compensations encouraging roll. The compensation makes it possible for the employee inventor to earn money on the invention and through that motivating him to invent. It is pointed out that it is of interest to the society that employees are stimulated to developing inventions and making technical progress.<sup>47</sup>

The rules on compensation concerning research-inventions diverge to some extent from the ones applicable to the other types of employee inventions. The inventor is only compensated if the benefit derived from the invention exceeds what, considering the salary of the employee and other employment benefits could be expected. This will be set out in the next section.

### **2.2.5 The reduction rule**

The second paragraph of article 6 lays down a specific reduction rule for “research-inventions”. It provides that if an employer utilises his right to an invention of that kind, the employee has a right to reasonable compensation in addition to his/her costs only if the value of the invention exceeds what he/she, considering the terms of employment could be expected to achieve. What the reduction rule implies is that only very good and non-expected inventions of great value should be compensated in addition to those costs that the inventor has when creating the invention. Employees who have created a “research-invention” are assumed to have received compensation through their salary or other benefits, and therefore have no further claim for compensation. Some part of the salary is therefore to be looked upon as compensation for expected inventions. The employee should otherwise

---

<sup>45</sup> Sundström, p. 129.

<sup>46</sup> Ibid.

<sup>47</sup> SOU 1946:21, p. 47.

receive special compensation, which, in the first place, is related to the value of the invention.<sup>48</sup>

### **2.2.6 Disputes**

Disputes concerning the application of LATU are to be handled by the City Court of Stockholm (Stockholms tingsrätt), article 9. However, if disputes arise, both the employer and the employee have the right to obtain opinions from Statens Nämnd för Arbetstagarers Uppfinningar, SNAU. This board was established at the time of the creation of LATU and the reason for the establishment was that it was considered to be desirable to try to prevent that disputes of this kind, in any great numbers, was referred to court.<sup>49</sup> The board's examination is free of cost and its opinions provide guidance to the parties and are nonbinding. If one of the parties does not follow a recommendation given by SNAU, the case can be moved to the City Court of Stockholm which also may obtain opinions from SNAU.<sup>50</sup>

The fact that the City Court of Stockholm is competent was established by a change in the legislation in 1992. Before that alteration, cases followed the order which is set for employment issues in general, that is to say the last resort being the Court of Labour (Arbetsdomstolen).<sup>51</sup>

SNAU has one chairman and six other members, who are appointed by the Government. Two of the members shall represent employee-interests and two, employer-interests. The chairman and the vice-chairman have to be legally educated and be experienced judges and the sixth member should have special insight and experience in patent law.<sup>52</sup> The board is constituted in a similar way to the Swedish Court of Labour.<sup>53</sup>

## **2.3 Collective agreements**

Since most of the articles in LATU are non-mandatory, there exists also collective agreements. Collective agreements are concluded both in the government sector (SAV-agreements) and in the private sector (SAF-PTK-agreements). These collective agreements, to a great extent, regulate matters differently than LATU.<sup>54</sup>

As said earlier, it is not possible, through agreements, to deprive the employee of the right to compensation stipulated in LATU. The way in which compensation matters are to be handled, according to the collective

---

<sup>48</sup> Sundström, p. 130.

<sup>49</sup> Jacobsson and others, p 671.

<sup>50</sup> Article 10 LATU and Sundström, p. 132 and Karnov 2001/02. p.1037.

<sup>51</sup> Karnov 2001/02. p. 1037.

<sup>52</sup> Article 10 LATU.

<sup>53</sup> Adlercreutz, p. 156.

<sup>54</sup> Karnov 2001/02. p. 1037.

agreements, are however different from the way provided by LATU. The agreement provides that the employer should pay reasonable compensation for the right to research-inventions or acquired right to the type of invention described in article 3 para 2 LATU (see pages 12-13). The most apparent difference from LATU is that the employee does not himself have to take initiative in the compensation matter.<sup>55</sup>

Disputes on issues regulated in the collective agreements are to be handled in a certain way. The first step is local negotiation. The inventor is at this stage usually represented by someone from his local trade union. If this does not lead anywhere, the second step is central negotiation. Employer and employee are then represented by their respective trade unions. If a settlement cannot be reached at this stage, the dispute is handled by, a arbitration board called Industrins Uppfinnarnämnd in which employer, employee and SAF and PTK together point out one member each.<sup>56</sup>

---

<sup>55</sup> Sundström, p. 135.

<sup>56</sup> Ibid.

# 3 The UK legislation concerning employee inventions

## 3.1 Introduction

The rules regulating the ownership rights of employee inventions are found in the Patents Act 1977. The UK legal system does not contain any uniform law on the ownership of IP rights and the rights concerning employee inventions are therefore located in a separate act. The legislation is essentially similar in most parts of the British Commonwealth.<sup>57</sup>

Three separate persons could come into question concerning patents; the inventor, the applicant and the owner of the patent rights. The inventor is the person who has the creative idea that forms the invention. The applicant is the person who files the patent application and this person does not have to be the inventor or the owner. A patent application can be filed by anyone, but a patent can only be granted to the inventor or to the correct owner (not necessarily the inventor). Because of this, any disputes on ownership must be sorted while the patent application is proceeding through the Patent Office.<sup>58</sup>

The allocation of ownership is generally judged in an employment context and the position is that patent rights frequently belong to the employer.<sup>59</sup> In English law, there are two kinds of cases in which, the employer will become the owner to his employee's invention. The two situations are; where the invention was made in the course of the employee's duties and where the employee because of his position in the company owes a special obligation<sup>60</sup> to the company.

After this brief introduction, an explanation of the common law system in the UK will follow.

---

<sup>57</sup> Hodkinson, *Comp. Law.*, 1986, p. 147.

<sup>58</sup> Irish, p. 135.

<sup>59</sup> Irish, pp. 135-136.

<sup>60</sup> Compare to *the duty to act in good faith* in Sweden and *fiduciary duty* in the US.

## 3.2 Employee's position at common law

It was discontent with the common law<sup>61</sup>, which gave rise to the present law. In spite of that fact, the common law still has some influence on the courts' interpretation of today's statutory provisions.<sup>62</sup> It was implied from the employment contract that the ownership rights to an employee invention would belong to the employer if it was created in the course of his employment. An invention was considered to be developed in the course of employment in two situations: (a) when the employee was employed to invent, that is to say, when the he/she was either expressly or impliedly employed to undertake work likely to lead to inventions being made and (b) when the employee was not mainly employed to carry out technical or scientific work, but stood in a fiduciary relation<sup>63</sup> to the employer,<sup>64</sup> (an example of such an employee would be a company director).

The common law position on ownership of patents gave the employer stronger rights than the employee. It was not based on statute law but on the general law of "master and servant" (labour law) under which anything produced "in the course of employment", belonged to the employer. Only contracts that were extremely unfair were held to be unreasonable. An example of this is found in the case of *Electrolux Ltd v Hudson*<sup>65</sup>. *Electrolux Ltd* made, among other products, vacuum cleaners and this company employed a Mr Hudson as a store man. Mr Hudson and his wife jointly invented a device for holding the disposable paper bags in a vacuum cleaner. Mr Hudson had signed an employment contract in which he agreed that all inventions made by him would belong to *Electrolux*. The High Court found this agreement to be unacceptably broad and they found that he was not employed to make inventions and the rights belonged to him and not to his employer. Such a contract is nowadays through the Patents Act 1977 clearly unenforceable.<sup>66</sup>

The implied position at common law could always be altered by explicit contract clauses depriving one party or the other of the rights conferred by the common law. The agreement could be express or implied by the courts from the facts. Of course, these types of contracts usually, in practice, led to a weakened position for the employee, and were held to be ineffective as being in unreasonable restraint of trade. This common law doctrine of

---

<sup>61</sup> Common law is explained as being court decisions that have precedential effect. Common law can also refer to all those legal systems which have adopted the historic English legal system. One of these is of course, the US but several other Commonwealth, and former Commonwealth, countries maintain a common law system ( see Slapper and Kelly, p. 2).

<sup>62</sup> Hodkinson, *Comp. Law.*, 1986, p. 147.

<sup>63</sup> A more detailed description of *fiduciary duty*, or *special obligation* as it is also called, is found in chapter 3.3.3.

<sup>64</sup> Hodkinson, *Comp. Law.*, 1986, p. 147.

<sup>65</sup> *Electrolux Ltd v Hudson (1977) FSR 312.*

<sup>66</sup> Irish, p. 137.

“restraint of trade” came into play where the position of the employee was rendered unfairly poor and was the only limitation to contracts of this kind.<sup>67</sup> Another way, in which the common law provided the employee inventor with worse rights than the legislation of today, is that it did not stipulate any obligation for the employer to compensate the employee.

The regulation regarding employee inventions in force in England today is now explained.

### 3.3 Patents Act 1977

The Patents Act 1977 (hereinafter referred to as the Act) lays out a framework of rights. The provisions dealing with employee inventions are found in sections 39 to 43 in the Act. What the rules imply are in some cases unclear, since much of the hard decision-making is left to the courts and the Comptroller<sup>68, 69</sup>.

The provisions in the Act correspond to some extent to the common law rules just described. The new law has in section 39 (1) and (2) laid down the common law distinction between inventions made by technically skilled employees (or those in fiduciary position) and those made by the unskilled, but it cannot be held that the Act simply just codifies the common law. It refines the common law rules and includes certain provision that provide stronger ownership rights for the employee. The most prominent difference between the Act and the position of the common law and is the fact that the Act prohibits particular contractual terms that diminish the employee’s rights of ownership and provisions for proper compensation. The Act also increases the possibilities for a court to strike down agreements that deprive employees of ownership rights – which would otherwise have been theirs. As mentioned earlier, the only possibility in common law was the rule of restraint of trade.<sup>70</sup>

When reading this chapter about the Act it is important to have in mind two details. 1) The facts given only apply to employers who are mainly employed in the UK, or who are working abroad but are attached in some way to a place of business in the UK.<sup>71</sup> For normal employment overseas, local law will apply. 2) When the provisions in the Act mention patents or patents being granted, they refer to a patent or other protection and to its

---

<sup>67</sup> Hodkinson, *Comp. Law.*, 1986, p. 147.

<sup>68</sup> The head of the British Patent Authority. *SOU* 1980:42, s. 66. Can in other circumstances mean “bank director with powers to investigate (kontrollbefogenheter)” according to Appleby.

<sup>69</sup> Cornish, p. 232.

<sup>70</sup> Hodkinson, *Comp. Law.*, 1986, pp. 147-148.

<sup>71</sup> It follows from a commentary given to the Patent Act 1977 which I found on the homepage of the UK Patent Office on the Internet. This is the address: [www.patent.gov.uk/patent/references/mpp/s39\\_s43pdf](http://www.patent.gov.uk/patent/references/mpp/s39_s43pdf)

being granted under UK law or the law in force in any other country or under any treaty or international convention.<sup>72</sup>

Section 39 the Act covers the entitlement between employee and employer to employee inventions, (which were made after the Act came into force, section 43(1)). It provides that an invention made by an employee shall be taken to belong to his employer if:

- a) *it was made in the course of the normal duties of the employee or in the course of duties falling outside his normal duties, but specifically assigned to him, and the circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties; or*
- b) *the invention was made in the course of the duties of the employee and, at the time of making the invention, because of the nature of his duties and the particular responsibilities arising from the nature of his duties he had a special obligation to further the interests of the employer's undertaking.*

In all other cases the employee has the initial rights in his own invention. The concept of shop right, used in US law (described on pages 41-42) does not exist in English law. In England, either the invention belongs totally to the employer or he has no rights over it at all. This is also a disparity from the Swedish system where the employer, as explained, in some situation may receive a right to utilize the invention in his business.

Section 39 provides the first statutory criteria for establishing rights in employee inventions. As stated earlier, this was previously solved by common law. The Court was in *Harris' Patent*<sup>73</sup> speculating on the relationship between section 39 and to the previous common law position. The Court found that, although earlier cases may provide guidance on how courts assessed the duties of the employee in a specific case and specific circumstances, and the extent and nature of an employee's obligation to further the interests of the employer's undertaking (special obligation), it is only section 39 that should be regarded for the law governing any employee inventions made after 1 June 1978.<sup>74</sup>

Sub-sections (1) and (2) of section 39 is only applicable to inventions made by employees. Unless the context of the Act requires otherwise, the term "employee" "means a person who works or (where the employment has ceased) worked under a contract of employment, or in employment under or for the purposes of a government department, or a person who serves (or served) in the naval, military or air forces of the Crown."<sup>75</sup> Here we can see a difference from the Swedish legislation where military personnel are

---

<sup>72</sup> The Act s. 43 (4).

<sup>73</sup> (1985) RPC 19.

<sup>74</sup> See the commentary to the Patent Act 1977, 39.02 (for more details see note 71).

<sup>75</sup> See the commentary to the Patent Act 1977, 39.01



excluded from LATU. They do not, according to article 1 para. 3, fall under the term “employee” and are therefore to be looked upon as “free” inventors. Another difference is that the term “employee” is not defined in LATU.

The view held in the doctrine studied for this essay is that determining whether a person is employed or not does not generally constitute a problem. Employees receive holiday pay; their employer pays national insurance and sickness benefits, and sometimes pension fund contributions.<sup>76</sup> If the inventor’s arrangement with the company are not such as to make him an employee at all, then the statutory provisions are excluded. Mutual rights may then depend on other contractual arrangements (if any) or common law. Consultant scientists, in particular, need to take care that the position as regards rights in any invention stemming from their consultancy work is clear.<sup>77</sup>

The burden of proof lies on the employer to prove what the employee’s duties are and to show that an invention was likely to result. The invention can belong to the employer even if it was developed after working hours and somewhere else than on the employer’s premises as long as the invention falls within the normal duties of the employee. The ownership position is not altered if the employee first tests his idea at home and uses his own materials. Likewise, if an engineer tests an invention that is personally-owned by using the equipment and materials of an employer, it is held that this does not allow the employer to claim ownership, although there might be differing views about misuse of company property and time.<sup>78</sup>

Sub-section 1(a) of section 39 incorporates a dual requirement – “normal or assigned duties” and “expectation of invention” and sub-section 1(b) states the requirement of special obligation. The question of ownership of employee inventions is therefore solved through a three-part test. First, one should define the “normal duties of the employee”, and then the second step is to decide if an invention was likely to result from these duties. The last part of the test is to investigate if the employee inventor had any special obligation at the time of the creation of the invention.

### **3.3.1 Normal duties**

“Normal duties” are sometimes defined in the employment contract or in pre-employment correspondence. However, duties often change with time and are not necessarily reflected in the records, so it is also important to consider the employee’s general “duty of good faith”, to the employer, which means the employee’s obligation to further the employer’s business, and also the custom and practice in the company. The conclusion to the

---

<sup>76</sup> Irish, p. 134.

<sup>77</sup> Reid, p. 145.

<sup>78</sup> Irish, p. 137.

question of whether the invention falls within the normal duties of the employee is based on all these facts and a judgement is made about what the employee inventor really was expected to do at the time of the creation of the invention.<sup>79</sup>

In *Harris' Patent*,<sup>80</sup> it was established that, in order to ascertain if an employee invention was created within the normal duties, one has to enquire whether inventing formed part of the employee's duties. If this was the case, then the requirements of subsection (1)(a) were satisfied. A limitation to the scope was given in the judgement of *Greater Glasgow Health Board's Application*.<sup>81</sup> The outcome of this case was that an invention, which related to an improved medical device, was not found to belong to a doctor's employer. The submission made, held that the invention should belong to the employer because a doctor's normal duty is to treat patients and that might involve encountering problems and bringing medical expertise to bear on them, but this was, as said, rejected.

### **3.3.2 Invention likely to result?**

When the employee's duties have been defined, the next step is to establish if the invention in question was likely to result from that type of work. Certain types of duties are more likely to originate in inventions. Much engineering work is for example creative and inventions developed by engineers will therefore belong to the employer. On the other side, where inventions are not expected, we have for example production of engineering drawings, where a draughtsman makes an invention relating to a product in one of those drawings. In inventions like that, it is highly probable that the employer would not be able to claim ownership. Where ordinary performance of an employee's job does not as such require him to supply anything by way of creative nature out of his own mind, it is hardly possible to expect an invention.

### **3.3.3 Special obligations**

Subparagraph (b) in section 39 of the Act concerns special obligations. This last part of the test refers to senior management. Employees working in senior management are looked upon as having special obligations towards their employer, and inventions (relating to the company) made by such employees are therefore often owned by the company. It is not clear how far down the hierarchy of the company this provision extends. A managing director's obligations would extend over the whole of the company's activities, but those of a sales manager would not.<sup>82</sup>

---

<sup>79</sup> Irish, p. 136.

<sup>80</sup> (1985) R.P.C. 19.

<sup>81</sup> (1996) R.P.C. 207.

<sup>82</sup> Irish, p. 136.

If the employee's obligations are no more than the ordinary good faith (to serve his employer's interests) expected of any employee, he probably keeps his invention even if he happens to have developed the invention during working hours and therefore in the course of his duties; an extra factor is necessary to provide the special obligation.<sup>83</sup> In *Worthington v. Moore*<sup>84</sup> an American pump manufacturing corporation put a man in charge of its business in England. The man received a high salary and commission and he was made vice-president of the corporation. The outcome of the case was that he was held liable under an obligation of good faith to account for patents relating to developments in pumps.

### 3.3.4 Compensation

Companies can make huge sums of money from inventions, but in most cases the patent do not cover their costs, much less make a profit. If immense profits do arise the employee inventor has the legal right to a share. From an employer's perspective the employee's salary is sufficient reward for performing all compulsory duties and further compensation would represent a double payment whilst creating a potential obstacle to the free exploitation of such inventions. Employee inventors, on the other hand, point to the large profits created by some of their inventions, far beyond the level of payment obtained from their employers.<sup>85</sup>

Through the Act, the skilled employee is given a legal right against the employer for compensation in respect of the invention in certain circumstances. The concept of an employee having a statutory right to such compensation, for his invention from which his employer has derived benefit, is an entirely new one which did not exist in UK law prior to the Patents Act 1977. No matter how much the invention was worth, the employee had no right to claim compensation.<sup>86</sup> The rules concerning compensation are set out principally in section 40(1) and section 41(1) and (4) of the 1977 Act. The language of these rules is rather new which means that there are no pre-1977 precedents directly available to interpret it.<sup>87</sup> The amount of compensation the employee inventor might be entitled to is dependent on the benefit the employer has obtained from a patent granted in relation to the invention.<sup>88</sup>

---

<sup>83</sup> Reid, p. 144.

<sup>84</sup> *Worthington & Moore* (1903) 20 R.P.C. 41.

<sup>85</sup> Irish, p. 144 and Chandler, *European Intellectual Property Review*, 1997, p. 600.

<sup>86</sup> Reid, p. 142.

<sup>87</sup> Reid, p. 146.

<sup>88</sup> Terrell, p. 88.

The Act covers two categories;

(1) The employer, following section 39 in the Act who has always owned the invention and the patent.

(2) The employee was the original owner of the patent and either assigned it, or exclusively licensed it; to his or her employer.<sup>89</sup>

The rules governing compensation will now be discussed; starting with the requirements that are common for both categories just described. The separate requirements for the two categories will then in turn be described.

### 3.3.4.1 Common requirements

There are two limitations for when compensation can be awarded. The invention, for which compensation is to be paid, has to have been created by an employee who, at the time of creating the invention, was mainly employed in the UK. If he was not mainly employed anywhere and his place of employment could be determined, compensation could be paid if, his employer had a place of business in the UK to which the employee was attached, whether or not he was also attached elsewhere.<sup>90</sup>

The other limitation is that compensation can only be granted in connection with an invention for which a patent has been granted.<sup>91</sup> “Patent” is defined as a patent or other protection, and by referring to it being granted means reference to it being granted under the law of the UK, or the law in force in any other country or under any treaty or international convention.<sup>92</sup> A consequence of this limitation is that it is not enough that an invention is patentable. If, for example, an employer decides not to file a patent application because the invention happens to be of a type which can be kept secret, such as an improvement to a process, then the employee does not have any right to compensation.<sup>93</sup>

Whether or not the invention was originally owned by the employer or by the employee, the requirement is that the employee should receive a fair share of the benefits which are derived from the invention, or that could reasonably be expected to be derived by the employer.<sup>94</sup>

Common to both categories of inventions is that all surrounding conditions should be considered when the compensation is assessed. The compensation can be constituted of money, of money’s worth, for example the provision of a car. It is the benefit the employer has received to date and any future benefit, which is reasonably predictable, which forms the basis for the

---

<sup>89</sup> Irish, p. 144.

<sup>90</sup> The Act, s. 43(2).

<sup>91</sup> The Act, s. 40(1).

<sup>92</sup> The Act, s. 43(4).

<sup>93</sup> Irish, p. 146.

<sup>94</sup> The Act, s. 41(1).

compensation. If the compensation turns out to be underestimated there is a possibility to make a second application for additional compensation.<sup>95</sup>

A limitation is that the Act stipulates a requirement that provides that compensation can only be paid when it is “just” to reward the employee. An example of when it would not be just to pay the employee compensation is if he had misused confidential information of the employer in applying for a patent.<sup>96</sup>

### 3.3.4.2 Inventions belonging to the employer

This chapter describes the requirements regarding compensation for inventions belonging to the employer.

An employee may be awarded compensation when it can be established that a patent for the employee invention, is of “*outstanding benefit*” to the employer, and, as mentioned before, that it is just that the employee should be awarded compensation. Such compensation may be awarded by the court or Comptroller (for an explanation of the name, see note 68) to secure for the employee a fair share of the benefit.<sup>97</sup> The burden of proof to show that the benefit is “outstanding” and that the benefit was derived from the patent rather than the invention lies on the employee.<sup>98</sup>

The benefit derived from a patent to a company can take several appearances. “*Benefit*” is defined as being “benefit in moneys worth” and this mean that the profit derived from the use of a patented invention is not the sole criterion to be taken into account when assessing the benefit. An employer can for instance, use a patent to prevent potential competitors from entering the market, or prevent the progress of existing competitors. These possibilities for the employer is to be regarded as constituting a benefit (perhaps outstanding) irrespective of profits obtain from the marketing of the patented product.<sup>99</sup> The key factor is how much the employer made, or could have made from licensing the patent since a patent represents a right to prevent others from infringing.<sup>100</sup> The most common one is that a patent makes it possible to sell a patented product or use a patented process and keep competitors out of the market. Another possibility for the employer is to licence the invention or assign it, in either case in return for payment.<sup>101</sup>

---

<sup>95</sup> Irish, p. 147.

<sup>96</sup> Irish, p. 147.

<sup>97</sup> The Act, s. 40(1) and 41(1).

<sup>98</sup> *GEC Avionic's Patent* (1992) R.P.C. 107; *British Steel Plc's Patent* (1992) R.P.C. 117.

In *Memco-Med Ltd's Patent* (1992) R.P.C. 403, it was decided that the onus of proof to show that the benefit was derived from the patent instead of the invention lies on the employee. The burden can, however shift to the employer depending on the evidence.

<sup>99</sup> The Act, s. 43(7), Chandler, *European Intellectual Property Review*, 1997, p. 607 and Hodkinson, *Comp. Law.*, 1986, p. 151.

<sup>100</sup> Cornish, p. 233.

<sup>101</sup> Irish, p. 145.

For the requisite of “*outstanding benefit*” to be fulfilled, it is not necessary that the patent is shown to be valid. In the situation where a company, for some time, has benefited from protected sales or from licensing and the patent is later found to be invalid, the company has still profited from the earlier protection.<sup>102</sup> An additional factor to be regarded is that in a situation where a company is dominant on the market for other reasons, the real reason behind the success of the invention might be the dominance with the patent protection contributing very little. It is also possible that it is an exceptionally good design, or even an exceptionally successful advertising campaign giving rise to the success rather than the patent.<sup>103</sup>

Whether any benefit is outstanding is a question of fact, but the law states that the size and nature of the undertaking must be considered with the result that a very large company would need a much higher benefit than a medium sized company would before the word would be applicable.<sup>104</sup> It is not easy to establish that the patent in question has been of outstanding benefit to the employer. This is illustrated by the fact that in all the three reported cases in which this issue has been considered, the applicant has failed to establish the requisite.<sup>105</sup> The term indicates actual, and not potential, benefit. It implies a superlative and means something out of the ordinary, which would not be expected to arise from the results of the duties for which the employee was paid.<sup>106</sup> The judge in *Memco-Med Ltd's Patent*<sup>107</sup> stated that a benefit is “outstanding” if it is “out of the ordinary when looked at it in total context of the activities of the employer concerned and not something that one would normally expect to arise from the duties that the employee is paid for”. It is therefore necessary when assessing whether the benefit is outstanding to look at the employer’s undertaking. The undertaking may be the whole or a division of the employer’s business. As mentioned earlier, it is also required to take into account the size and nature of that business and all the surrounding circumstances. It is only the benefit to the employer that needs to be outstanding, not the degree of inventive ingenuity involved.<sup>108</sup>

A question that might spring to mind now is how is then “*undertaking*” identified? This issue arose in British Steel plc’s Patent<sup>109</sup> as the invention was only used at one of the company’s sites. The judge held that in this specific case the “undertaking” was the “undivided totality of the British Steel operation”. He did not however rule out the possibility that in “appropriate circumstances, and when supported by evidence” the term

---

<sup>102</sup> Irish, p. 146.

<sup>103</sup> Irish, pp. 145-146.

<sup>104</sup> The Act, s. 40(1).

<sup>105</sup> *Memco-Med Ltd's Patent*, above; *GEC Avionic's Patent*, above; *British Steel Plc's Patent*, above.

<sup>106</sup> Follows from the case: *GEC Avionics' Patent* (1992) R.P.C. 107 at 115.

<sup>107</sup> (1992) RPC 403.

<sup>108</sup> Reid, p. 146.

<sup>109</sup> (1992) RPC 117.

could be interpreted as comprising of a particular sector or site of the total organisation of the employer.<sup>110</sup>

When the test for outstanding benefit is satisfied, the Act stipulates that the assessment of compensation is to allow the employee “a fair share”. In determining the fair share of the benefit, the court or Comptroller shall take the following matters into consideration:

- a) the nature of the employee’s duties, his remuneration and the other advantages he derives or has derived from his employment or the invention;
- b) the effort and skill which-
  - (i) the employee has devoted to making the invention; and
  - (ii) any other person has devoted including advice or other assistance by any other employee not a joint inventor<sup>111</sup>; and
- c) the contribution made by the employer to the making, developing and working of the invention.<sup>112</sup>

### **3.3.4.3 Inventions belonging to the employee**

When the invention originally belonged to the employee, the benefit that the employer has derived from the invention does not have to be “outstanding”. If the benefit to the employee from the assignment or the licence to his or her employer can be regarded as inadequate in comparison to the benefit derived by the employer from the patent, then it may be justifiable for the employer to pay compensation to the employee.<sup>113</sup> The general principles for the assessment of compensation are the same as those for “employers’ inventions” just described. In other respects the matters to be taken account of are the same as for employer’s inventions (one exception is however described below).<sup>114</sup>

Similarly as in situations where the invention from the beginning belonged to the employer, the compensation must constitute a fair share of the benefit. The list of factors required to be taken into account is however different than for “employer’s inventions”. The court or Comptroller must take into account the following matters:

- a) any conditions in any licence granted in respect of the invention or patent;
- b) the extent to which the invention was made jointly by the employee with any other person; and

---

<sup>110</sup> Ibid. at p. 122.

<sup>111</sup> See the Act, s. 43(3) which provides that “making an invention” excludes merely contributing advice or other assistance.

<sup>112</sup> The Act, s. 41(4).

<sup>113</sup> The Act, s. 40(2).

<sup>114</sup> Terrell, p. 91.

- c) the contribution made by the employer to the making, developing and working of the invention.<sup>115</sup>

#### **3.3.4.4 Disputes**

Issues between employers and employees over ownership or compensation are, generally, settled internally. The larger companies often have a Patents Award Scheme set up to deal with compensation to employee inventors. If the claim cannot be settled in an amicable way, then the employee can apply to the Patent Office, the Patents County Court, or the High Court.<sup>116</sup> They may order compensation in the form of a lump sum or periodic payments. A claim may be made at any time after the patent is granted and prior to the expiration of one year after its lapse, whether this is by failure to pay an annual renewal fee or by the patent reaching the end of its 20 year life.<sup>117</sup>

Finally, this chapter about the regulation in the UK will be concluded by a description regarding contracts between employers and employees.

#### **3.3.5 Employee – employer contracts**

The law concerning ownership of patentable inventions cannot be varied by an agreement signed before the invention is made. An employer is because of that not permitted to make an employee sign away any rights in advance, for example when arriving at a new job. Agreements determining who owns the invention can, however be made after the creation of the invention. The reason for this being that the inventor then has some idea as to how important the invention is, and can therefore make a reasoned judgement on its value.<sup>118</sup>

Section 42 of the Act relates to the enforceability of contracts relating to employee inventions. It follows from section 42(1) that the section is applicable to contracts which may be of any date but must have been entered into by the employee with the employer or with some other person at the request of the employer or in pursuance of the employee's contract of employment.

Any term in such a contract diminishing the employee's rights in inventions (or patents for them or applications for such patents) of any description made by him after the appointed day (1 June 1978) and the date of the contract is unenforceable against him to the extent that it diminishes those rights.<sup>119</sup> Thus a contractual term cannot be enforced in a way which would

---

<sup>115</sup> The Act, s. 41(5).

<sup>116</sup> Irish, p. 147.

<sup>117</sup> Patent Rules 1995, r. 60(2); special provisions apply if a patent has lapsed.

<sup>118</sup> Irish, p. 137.

<sup>119</sup> The Act, s. 42(2).



deny an employee his rights to certain of his inventions as laid down by s. 39.

Where there is a collective agreement between a trade union to which the employee belongs and by the employer or an employers' association, to which the employer belongs, the rights to compensation will be substituted if the agreement is in existence at the time of making the invention.<sup>120</sup> The agreement does not have to secure any particular level of benefit to the employee in order to be effective.<sup>121</sup>

The provisions on compensation cannot either be avoided through dealings in the patent. An employer cannot escape from his obligation to pay compensation through assigning the patent or application for the patent to a person connected with him.<sup>122</sup> In a situation like that, the court will, in order to determine the benefit derived by the employer, assess the amount that could reasonably be expected to have been derived if the transaction instead had been to an outsider.<sup>123</sup> It is further not possible for an employer obligated to pay compensation to assign a patent and retain the protection, but correctly claiming that he is no longer the owner. For example, if a patent is assigned to an associated business in a large group of companies, or in the case of a small company to a relative of the owner, then the wording of the Act is such that the employer is still obliged to pay compensation.<sup>124</sup>

Here ends the part on the UK legislation which is now followed by chapter 4 where the reader is provided with information about the regulation in the US.

---

<sup>120</sup> The Act, s. 40(3) and (6).

<sup>121</sup> Cornish, pp. 235-236 and the Act s. 41(6).

<sup>122</sup> The Act, s. 41(1).

<sup>123</sup> The Act, s. 41(2).

<sup>124</sup> Irish, p. 146.

# 4 The US legislation concerning employee inventions

## 4.1 Introduction

To fully comprehend the following description of the legislation on ownership of employee inventions in the US it is important to have some knowledge about how the judicial system in America works. The reader is here given a short description of the judicial structure.

The American law is built on English law since the original states that formed the United States were British. The American legal system comprises around fifty related, but nevertheless far from identical, judicial systems. The court structure consists of a nationwide system of federal courts that function alongside state courts. All the judicial power which has not, through the constitution, been assigned to the federal organs falls on the states. However, there are areas where both federal and state organs are competent (so-called *concurrent jurisdiction* where, nevertheless, federal law has preference in front of state rules).<sup>125</sup>

In the areas where the states have the judicial power there is no, and there cannot be, any federal law. All states have principally their own common law that should be applied also by the federal courts when there are no statutory rules. Federal common law is however, in lack of statutory regulation, conceivable in those areas that fall within the area of federal regulatory competence.<sup>126</sup>

The state court system and then the federal court system will now in turn be portrayed with sketches to clarify the structure.

---

<sup>125</sup> Bogdan, p. 148.

<sup>126</sup> Bogdan, p. 149.

## **STATE JUDICIAL SYSTEM**

---

Supreme court	Highest appellate court, 5-9 judges.
---------------	--------------------------------------

---

Court of appeal/appellate court	Intermediate appellate courts. Exist in most states.
---------------------------------	--

---

Superior-, district-, circuit court or court of common pleas	Trial courts of general jurisdiction, 1 judge.
--	--

---

All the states legal systems, (except the system in Louisiana which system is inspired of French law) are built almost completely on the common law tradition. It is the state courts that handle most of the litigations. Every state has established its own system through constitution and statute and the systems are not uniform which makes it difficult to provide a thorough account that fits all state systems.<sup>127</sup>

The great majority, over 90%, of civil cases as well as criminal cases are started and ended in the state courts. The judgements of the state supreme courts are final, with the exception that if a question of federal interest has arisen through the judgement, they can be appealed to the federal Supreme Court.<sup>128</sup>

## **FEDERAL JUDICIAL SYSTEM**

---

U S Supreme Court	Highest instance, nine judges.
-------------------	--------------------------------

---

Courts of appeal	Sometimes the last instance for federal cases, usually 3 judges. 13 courts.
------------------	---

---

District courts	Trial courts of general jurisdiction for civil and criminal matters, 1 judge. At least one court in every state.
-----------------	--

---

---

<sup>127</sup> Bogdan, pp. 148, 153 and Farnsworth, p. 37.

<sup>128</sup> Bodgan, p. 153.

The federal court system consists principally of a little less than a hundred district courts and can be divided into three levels: the district courts, the court of appeals, and the Supreme Court. There are also special courts of limited jurisdiction as the Court of Federal Claims, the Court of International Trade, and the Tax Court. Although there is no, as mentioned before, special system of administrative courts, there are many federal administrative tribunals that have adjudicatory functions but that are not proper courts.<sup>129</sup>

The last instance is of course the Supreme Court, which reviews the appeals from the courts of appeal. It is not only the highest appellate court of the federal system, because it also has some degree of power to review judgements from state courts. The reality is, however, that the number of cases in which the Supreme Court reviews either federal or state cases, are very few.<sup>130</sup>

Jurisdiction is granted to the federal courts through the Constitution. The jurisdiction, which is not granted exclusively to the federal courts, remains in the state courts.<sup>131</sup>

The state courts and the federal courts areas of jurisdiction in civil cases, to some extent, overlap each other. This occasionally gives the plaintiff an option. In civil cases where federal courts have jurisdiction, the jurisdiction is usually based on diversity jurisdiction (the parties are not domiciled in the same state and the value of the object of dispute exceeds a certain minimum amount). The federal courts, should however, in these cases apply state substantive law in the state where the federal court, which handles the case in the first instance is established (the procedure, however, follows federal procedural law).<sup>132</sup>

The federal constitution stipulates that the states should principally recognise and enforce each others decisions. The recognition in question here must however be distinguished from the rulings binding precedential effect since that, when it comes to state-rulings never extend outside the immediate state.<sup>133 134</sup>

This short introduction to the American court system is now followed by a description of the legislation on the ownership of employee inventions.

---

<sup>129</sup> Farnsworth, pp. 38-39.

<sup>130</sup> Farnsworth, pp. 39-40.

<sup>131</sup> Farnsworth, p. 40.

<sup>132</sup> Bogdan, p. 156.

<sup>133</sup> One exception to this is that a decision from one state court can be invoked in another and could there have considerable *persuasive authority*.

<sup>134</sup> Bogdan, pp. 149-150.

## 4.2 The law governing employee inventions

### 4.2.1 Introduction

From the beginning, the states granted monopolies to inventors. In 1787, after conflicts had arisen between the states regarding some patents, the Constitutional Convention proposed that the federal government should be granted additional powers to secure rights for authors and inventors. This proposal resulted in the drafting of Article 1, Section 8 Clause 8 of the Constitution. It states that Congress shall have the power “to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”. Several patent acts have since then been created, and the present law was legislated in 1951.<sup>135</sup> Thus, it follows from the US Constitution that a patent is a grant given by the government, which gives the patentee the right to exclude others from making, using or selling an invention.<sup>136</sup> Federal law exclusively governs inventions that are patentable.<sup>137</sup> According to the Patent Act in the US, anyone who is “the first to invent any new and useful process, machine, manufacture, or composition of matter or any new and useful improvement thereof,” may be granted a patent for that invention.<sup>138</sup> In Europe, a first to file-system is used instead of the first to invent-system used in the United States.

Transfers, mortgages, developments of patents and contract to assign patents are regulated by state property law. However, when it comes to jurisdiction of cases involving ownership of patent rights, or the creation of licenses, state law generally handle those matters.<sup>139</sup> Civil actions arising under the patent statutes are exclusively handled by federal courts.<sup>140</sup>

Who owns, and who can use an employee invention in the US is determined through the intent of the employer and the employee, through an express or implied agreement established between them. An inventor retains in theory the title to his patented invention unless he voluntarily assigns the patent to his employer. In reality, though most employees are obligated to assign their patents to their employers because of an obligation arising from an implied agreement created when the employee was hired to invent, or from the *fiduciary duty* which some employees owe to their employer (read more about this duty under the chapter 4.2.2.3). Allocating patent rights through signing express contracts is the most common way of solving these problems in America, as accounted for further on in the essay.<sup>141</sup>

---

<sup>135</sup> Foster and Shook, pp. 8-10.

<sup>136</sup> 35 U.S.C. § 271.

<sup>137</sup> 35 U.S.C. §§ 1-376.

<sup>138</sup> 35 U.S.C. § 101.

<sup>139</sup> Thomas, Tex. B.J., November 1999, p. 998.

<sup>140</sup> 28 U.S.C. § 1338.

<sup>141</sup> Hovell, Notre Dame L. Rev., 1983, p. 864.

In the absence of a contract the ownership of employee inventions is allocated by common law<sup>142</sup>, more precise by default rules which are explained in chapter 4.2.2.<sup>143</sup> When establishing ownership the employment status of the inventor is of importance. Federal common law controls who initially receives the title to a patent, but state law determines an inventor's employment status.<sup>144</sup> Only a person who qualifies as an inventor may be issued a patent. The consequence of this is that when an employee has invented something, it is he that the patent is issued to and in his name, and not the employer. These facts does not change even if the employer contributed in the development of the invention or if the development took place during company time, used company resources or was part of normal employment undertaken by the employee. This is an important difference from the systems in Sweden and the UK. Since the employee would be the patent holder, rather than the employer, he would be given the exclusive rights to enjoy the invention and this would include preventing even the employer from making, using or selling the invention.<sup>145</sup>

If an inventor is a "free" inventor (as opposed to an employee inventor), the inventor retains the title to his patented invention unless he chooses to assign the patent to his employer. Most employees however have an obligation to assign their patents to their employers and this obligation may arise, as said earlier, from an implied agreement created when an employee is hired to invent, or from a fiduciary duty.<sup>146</sup> Ownership of inventions created by inventors employed by government or university is, unless there is a pre-employment assignment agreement or governing statute, controlled by the same common law rules as "regular" employees.<sup>147</sup>

Some states have instituted statutes regulating matters concerning ownership of employee inventions. Over the years, several proposals for federal legislation have been introduced into Congress and these have all been "pro-inventor". These proposals consisted of, the Brown Bill<sup>148</sup>, the Moss Bill of 1969<sup>149</sup> (this proposal was reintroduced four times throughout the 1970's without success), the Hart-Owens Bill of 1973<sup>150</sup> and the Kastenmeier Bills of 1982<sup>151</sup>. Mutual for the proposals was that they all demanded that the government should determine the compensation an employee inventor was entitled to when considering the exploitation of the patented invention. The reason why these proposals never passed Congress

---

<sup>142</sup> Common law can be described as; decisions that have precedential effect.

<sup>143</sup> Hovell, *Notre Dame L. Rev.*, 1983, p. 863.

<sup>144</sup> Hovell, *Notre Dame L. Rev.*, 1983, pp. 864-866.

<sup>145</sup> Wadley and Brown, *J. Kan. B.A.*, September 1999, p. 3.

<sup>146</sup> Hovell, *Notre Dame L. Rev.*, 1983, p. 864.

<sup>147</sup> Thomas, *Tex. B.J.*, November 1999, p. 1003.

<sup>148</sup> H.R. 4932, 88<sup>th</sup> Cong., 1<sup>st</sup> Sess. (1963), reintroduced as H.R. 5918, 89<sup>th</sup> Cong., 1<sup>st</sup> Sess. (1965).

<sup>149</sup> H.R. 155512, 91<sup>st</sup> Cong. (1969), reprinted in 116 *Cong. Rec.* 744 (1970), reintroduced as HR 1483, 92d Cong. (1971).

<sup>150</sup> S. 1321, 93d Cong. (1973), reprinted in 119 *Cong. Rec.* 9102 (1973), and H.R. 7111, 93d Cong. (1973).

<sup>151</sup> H.R. 4732, 97<sup>th</sup> Cong. (1981), and H.R. 6635, 97<sup>th</sup> Cong. (1982).

is according, to some of the articles studied for the purpose of this essay, that the majority of Congress is clearly pro-employer.<sup>152</sup>

To summarise; employee-inventors are generally governed by two sets of rules:

- 1) default rules, under a branch of state common law, or
- 2) employee – employer contracts.

These will, in turn, be described in the following.

## **4.2.2 Default rules**

### **4.2.2.1 Introduction**

As gathered from above most employees do not hold property rights in the things they invent in their work. By default or, more commonly by contract, ownership usually rests with the firm that employs them.

The term *default* might deserve some explanation since the expression generally has a different meaning than what is referred to in this context. During the nineteenth century when the industrial revolution spread throughout the United States, written employment agreements were commonly used. At the same time, the common law developed a set of default rules which applied when the employer and employee did not allocate rights to an employee invention created prior to the dispute. Through contracts the parties were free to alter the legal rights of the parties to any inventions created by the employee.<sup>153</sup> A default rule is accordingly a rule that comes into play when there is no contract between parties. In other words, the default rules imply the contractual terms into the relationship when there is no express contract between the parties.

The relationship between the default rules and the possibility for the parties to enter into contracts is that the employee and the employer are free to contract around these common law rules. As will be seen later on, however, some states have passed legislations which in certain situations put a stop to this possibility.

There are different default rules for different categories of employees. Whether or not an employee has to assign his entire right, title and interest or any part thereof is at common law dependant on the employee's status at the time he actually conceptualised the invention, rather than the expectations when he was hired.<sup>154</sup> When it comes to proving that the

---

<sup>152</sup> Bartow, Santa Clara L. Rev., 1997, p. 696.

<sup>153</sup> Baker and Brunel, St. Louis U. L. J., winter 1991, p. 405.

<sup>154</sup> See United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933) (discussing rights of inventors in inventions developed during employment).

inventor's employment status required the inventor to assign a particular patent, the burden lies on the employer.<sup>155</sup>

The primary factors for, through common law, determining the proper allocation of patent rights to employee inventions are listed here;

- 1) the nature of the employment;
- 2) the extent to which the employee used his employer's resources in the development of the invention; and
- 3) if the invention relates to some areas of the employer's business.<sup>156</sup>

The three default rules are summarised in this table.

<b>Type</b>	<b>Invention status</b>	<b>Ownership</b>
Specific inventions	Inventor "employed to invent"	Employer owns outright
General inventions	Non-R&D inventor; invention related to employee duties or created with employer resources	Split entitlement: employee owns patent, but employer has a "shop right," a limited, non-transferable
Independent inventions	Invention unrelated to employee duties or created without employer resources	Employee owns outright

The three different categories of inventions have been developed in the courts to determine the respective rights of the employee. In 1933, the United States Supreme Court decided the case *United States v. Dubilier Condenser Corp.*<sup>157</sup>. This case gives an extensive review of the common law regarding the respective rights of employers and employees in employee inventions.<sup>158</sup>

<sup>155</sup> Howell, Notre Dame L. Rev., 1983, p. 866.

<sup>156</sup> Hershovitz, Journal of Intellectual Property Law, fall 1995, p. 192-193 and Parker, S. Cal. L. Rev., May 1984, p. 607.

<sup>157</sup> 289 U.S. 178 (1933).

<sup>158</sup> A more detailed description of the case will be given on page 39.



The first category distinguished in *Dubilier* encompasses *specific inventions*. Those inventions are made by employees who were specifically hired to invent. The default rule for this category is that all inventions created by such an employee in his employment belong to the employer.<sup>159</sup>

The second category covers inventions made by employees who are not hired to invent but whose inventions were created with the help of materials, facilities, or time of the employers (often called *general inventions*). An employee like this holds the title to the invention, but his employer is given a “shop right”.<sup>160</sup> A shop right is a non-assignable, non-exclusive, royalty-free license, which gives the employer the right to use the invention for the term of the patent.<sup>161</sup> (A more extensive description of the expression will follow further on).

In the third category falls inventions made by employees who are not hired to invent and which are developed on the employee’s own free time, with his own materials and are unrelated to the employer’s business (here called *independent inventions*). An employee of that kind owns all the rights to his inventions.<sup>162</sup>

These three categories will below, in turn, be described in more detail.

#### **4.2.2.2 Specific inventions**

An employee is hired to invent if he is employed to develop inventions.<sup>163</sup> The primary job responsibility of an employee hired to invent, is to solve a specific technical problem, this also applies for general R&D employees. If the employee was hired to invent, then the employer owns the invention. This is the case even if there is no contract covering the situation. If it is not specifically expressed in the employment contract, it is implicit that what the employee is hired to invent will become the sole property of the employer.<sup>164</sup> An employee who is hired to invent must assign his entire right, title and interest in any patents, which arise from inventions conceptualised during the employment and stemming from the tasks delegated to him by his employer.<sup>165</sup>

Close cases sometimes arise in two situations. First, an R&D employee may bring with him, into his employment, an already complete invention. Inventions like that are generally excluded from the implied contract, which

---

<sup>159</sup> Baker and Brunel, St. Louis U. L. J., 1991, pp. 404-405. Parker, S. Cal. L. Rev., May 1984, p. 606.

<sup>160</sup> Baker and Brunel, St. Louis U. L. J., 1991, pp. 404-405 and United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933) at 188.

<sup>161</sup> United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933).

<sup>70</sup> Parker, S. Cal. L. Rev., May 1984, p. 607.

<sup>163</sup> Hershovitz, Journal of Intellectual Property Law, fall 1995, p. 194.

<sup>164</sup> See Standard parts Co. v. Peck, 264 U.S. 52, 59-60 (1924); Dubilier Condenser, 289 U.S. at 187.

<sup>165</sup> Hershovitz, Journal of Intellectual Property Law, fall 1995, pp. 194-195.

means that the employee retains title and the employer either has a shop right or must obtain a licence like anyone else (unless one was implied from the dealings of the parties). The second situation arises when an R&D employee invents something that does not fall within his job description. In this situation, the default rule is far from certain, though some speak of a clear rule in favour of the employee. Because of this, the general R&D employees are one of the most important groups for the firm to bring under contract. Some states however, have mandatory rules that hinder the employers from contracting around the default rule (for a more detailed description see under the headline: State statutes).<sup>166</sup>

In situations where there is no employment contract, the question is, if it from the nature of the employee's duties and the instructions given by the employer can be inferred that the employee was hired to invent. The leading case on this subject is, again, *United States v. Dubilier Condenser Corp*<sup>167</sup>. The question in this case was whether the two employees who made the invention, Dunmore and Lowell, were hired to invent. The two were employed by the Bureau of Standards as scientists, but their employment contract did not mention anything about invention or research. The court found that the two employees did not agree to "exercise their inventive faculties in their work", and that the invention was not within the scope of the research assigned to them. The court also pointed out that the Bureau had in the past allowed employees to patent their inventions. The outcome of the case was that the court found that Dunmore and Lowell were entitled to keep their inventions with a right to patent.<sup>168</sup>

#### 4.2.2.3 General inventions

If the employee was not hired to invent and there is no employment contract dealing with invention ownership, then the employee, as the inventor, owns the invention. This, however, might not always be the case because the employer may, as mentioned before, be entitled to a *shop right* if the employee-invention was created during the employee's hours of work or developed with the help of the employer's facilities, tools, personnel or other resources. This is the default rule for, so-called, general inventions.<sup>169</sup>

There is one limitation to this general result: if the employed inventor has such a close relationship with the corporation as to be considered its "*alter ego*", the employed inventor may be required to assign all rights in the invention to the corporation.<sup>170</sup> He is considered to have an obligation to promote his employer's best interest by assigning a potentially competing invention created during his employment. The types of employees that are

---

<sup>166</sup> Merges, Harv. J.L. &Tech., fall 1999, pp. 5-6.

<sup>167</sup> 289 U.S. 178 (1933).

<sup>168</sup> Thomas, Tex. B.J., November 1999, p. 999.

<sup>169</sup> Ibid., Hershovitz, Journal of Intellectual Property, fall 1995, p. 195 and Merges, Harv. J.L. & Tech., fall 1999, p. 6.

<sup>170</sup> Daniel Orifice Fitting Co. v. Whalen, 198 Cal. App.2d 791. 18 Cal.Rptr. 659 (1962).

considered to have this close relationship are typically corporate officers and directors; they are employees in high-ranking positions. These employees are said to have a *fiduciary duty*<sup>171</sup> and it implies a duty not to compete with the employers. The duty is based on the fact that these types of employees are looked upon as having a duty of loyalty. A similarity between the analysis based on employment status and the one based on fiduciary duty is that it varies somewhat from state to state depending on the corporate law of the state.<sup>172</sup>

Three conditions have to be fulfilled if the employee inventor because of a fiduciary duty is to be required to assign the rights in his invention. The employer has to show; that

- 1) the inventor was under a fiduciary duty to his employer;
- 2) the inventor had an obligation to assign that type of patent;
- 3) the obligation to assign the patent existed when the invention was created.

Who has this fiduciary duty is determined by State Corporate law.<sup>173</sup> Employment alone does not create a fiduciary duty not to compete with one's employer.<sup>174</sup> The fiduciary duty calls for the existence of a confidential relationship (the existence of a confidential relationship must be determined from the state corporate laws) and actual control over the operation of the employer's business, an alter-ego relationship.<sup>175</sup> When the employer has established that fiduciary duty, the employer has to prove that the alter-ego had an obligation to assign the specific type of invention to avoid unfair competition with the employer. In most of the state corporate laws, it is prohibited for employees in high-ranking positions to directly compete with the corporation employing them by taking over a "corporate opportunity".<sup>176</sup> Finally, the employer must prove that the employee invention was created while the employee was under an obligation to assign the resulting patent. An obligation like that does not exist just because the inventor later becomes an alter-ego of the employer. Equally, a former alter-ego does not have to assign a patent for an invention that he has developed after leaving

---

<sup>171</sup> Compare with England's *special obligation* in chapter 3.3.3 and Sweden's *duty to act in good faith* on pages 12-13.

<sup>172</sup> Parker, S. Cal. L. Rev., May 1984, p. 607 and Hovell, Notre Dame L. Rev., 1983, pp. 870-871.

<sup>173</sup> See Tripp v. United States, 406 F.2d 1066 (Ct. Cl. 1969).

<sup>174</sup> See Banner Metals, Inc. v. Lockwood, 178 Cal.App.2d 643, 3 Cal.Rptr. 421 (1960) (the position's title is not controlling).

<sup>175</sup> Examples of positions in which the employee can be seen to have a fiduciary duty: a majority stockholder, a vice-president for development, a vice-president and sales manager, a non-officer who actually runs the business. A vice-president, general manager and principal shareholder are not the employer's alter-ego if another person actually runs the business. These examples are taken from several cases.

<sup>176</sup> Hovell, Notre Dame L. Rev., 1983, p. 871

his position. This is so even if he had worked on the same problem while an alter-ego.<sup>177</sup>

The *shop-right* is as mentioned earlier, a non-exclusive, royalty-free licence that gives the employer the right to make, use and sell articles embodying the patented invention. The employer is however only given the right to sell articles that fall within his normal range of business.<sup>178</sup> The employee that created the invention is free to patent the invention and exploit it as he or she pleases.<sup>179</sup> An employer who holds a shop right may not grant licenses to others, may not participate in binding an infringement action and the employer is not given any general power to stop the employee from licensing his invention to others.<sup>180</sup>

The leading case on the shop-right doctrine is *Wommack v. Durham Pecan Co.*<sup>181</sup> from 1983. The facts are that Wommack sued his former employer for patent infringement. Durham (the employer) claimed that it had a shop right in Wommack's invention and could, because of that use the invention without paying Wommack a royalty. There was no doubt about the fact that Wommack was not hired to invent. He was hired to work as a general labourer in a pecan processing plant. Wommack had no agreements regarding his inventions. At home he developed a method for removing worms from pecans. Wommack showed the method to Durham who took an interest in it from the start. Wommack received equipment from Durham to use at home in the development of the idea. At the same time, Wommack agreed to Durham using the process in the plant. At his own expense, Wommack applied for and received a patent on the process.<sup>182</sup> What happened then was that Wommack and Durham "drifted apart", and Wommack demanded Durham to stop using the process or pay him a patent royalty. Durham claimed it had a shop right in the invention, and the court agreed with Durham. It held that the employer's assistance in turning the invention into practice is not necessary to obtaining a shop right. The primary consideration is the employee's consent. The employee is considered to have given his consent by either actually giving it to the employer's use, or by using the employer's time and facilities when making the invention. Another way to put it is that the conduct of the employee prevents him from suing the employer for patent infringement.<sup>183</sup> The conclusion to make from this case is hence that the assistance given by the employer (facilities, tools etc.) in the development of the invention is not in itself a determining factor for if the employer is entitled to a shop right in the invention. The decisive factor is the employee's consent.

---

<sup>177</sup> Hovell, Notre Dame L. Rev., 1983, p. 872.

<sup>178</sup> Hovell, Notre Dame L. Rev., pp. 874-875.

<sup>179</sup> Thomas, Tex. B.J., November 1999, p. 999.

<sup>180</sup> Parker, S. Cal. L. Rev., May 1984, p. 607.

<sup>181</sup> 715 F.2d 962, 965 (5<sup>th</sup> Cir. 1983) (determining employer may use invention, but cannot sell or stop use by others).

<sup>182</sup> Thomas, Tex. B.J., November 1999, p. 999.

<sup>183</sup> Thomas, Tex. B.J., November 1999, p. 1000.

Employers can lose a shop right that they otherwise might be entitled to. The following summary of a case will give an example of a situation where this might occur. In the *Lone Star* case<sup>184</sup> it is illustrated that employees in some situations may avoid creation of a shop right in their employer. Lone Star hired Wahl as a consultant under a written contract. Wahl had rejected a draft of a contract that among other things assigned patents to Lone Star. Wahl later made an invention and asked the president of Lone Star to witness it. The president refused and demanded Wahl to sign an amendment to the employment contract confirming a retroactive patent assignment clause. Wahl refused to sign this agreement. He was then fired and a lawsuit ensued. Because it followed from the contract, and the contract negotiations that Wahl intended to retain his patent rights, the court of appeals held that shop rights were not in question. This meant that the court would not imply a shop right provision in a written contract when the parties clearly had rejected such a right. Other cases have also held that the employer and employee can agree to exclude creation of a shop right.<sup>185</sup>

The general rule is that the shop right is not transferable.<sup>186</sup> This is in compliance with the doctrine that agreements granting patent licenses are personal and not assignable unless expressly made so. However, the shop right passes to a purchaser of the entire business even if the purchaser distributes the assets to various existing subsidiaries.<sup>187</sup> Even if the employer cannot voluntarily transfer the shop right, a legal successor, such as a bankruptcy receiver or a successor corporation, can exercise the shop right.<sup>188</sup>

When it comes to the duration for the shop right, there are no recent cases dealing that matter. The courts have held that the shop right exists as long as the patent covering the invention and this view is supported by the literature as still applying. Even if the employment relationship terminates earlier, the shop right exists for the duration of the patent.<sup>189</sup> After the patent expires the employer may still use the invention, as may the public generally.

#### **4.2.2.4 Independent inventions**

Inventions that are unrelated to the job assignment or not created at work using employee resources often belong exclusively to the employee. This applies in most cases of non-R&D employees and in some cases of R&D employees, though employment contracts frequently assert ownership in both cases. However, in eight states, legislation regulates employment contracts so that even R&D-employees own unrelated inventions made off-

---

<sup>184</sup> 636 S. W. 2d 217 (Tex. App. - -Texarkana 1982, no writ).

<sup>185</sup> Thomas, Tex. B.J., November 1999, p. 1000.

<sup>186</sup> See *Wommack v. Durham*, p. 925.

<sup>187</sup> Thomas, Tex. B.J., November 1999, p. 1002.

<sup>188</sup> Hovell, *Notre Dame L. Rev.*, 1983, p. 875.

<sup>189</sup> Thomas, Tex. B.J., November 1999, p. 1002, Hovell, *Notre Dame L. Rev.*, 1983, p. 874.

site.<sup>190</sup> (For more details, see chapter 4.4). When an employee who is hired to invent develops, on his own time and without the assistance of his employer's resources, an invention which is unrelated to the task the employer assigned to him or is unrelated to his employer's business, the employee is under no duty to assign his rights in the invention to his employer.<sup>191</sup>

After this explanation of default rules - the systems regulating employee inventions in situations where the parties have not entered into contracts - I will now describe how situations where the employer and the employee, on the contrary, have reached agreements is regulated.

### 4.3 Employee – employer contracts

In response to uncertainties involved in applying common law doctrines most employers use express written contracts to allocate patent rights between them and their employees. Employers may wish to anticipate the possible inventive activities of employees and require the assignment of rights in such inventions to the employer as part of the employment contract. In addition to an obligation to assigning rights to the invention, the agreements can impose other duties on employees, including; a duty to assign patent applications and patent to the employer, a duty to assist in the patent prosecution, and a general duty to cooperate in the perfection of the employer's rights in the invention. The great majority of the states in America allow these types of contracts, which usually transfer all of the inventor's patent rights to the employer in return for the inventor's regular salary.<sup>192</sup> There are however eight states, which have enacted statutes that have the purpose of preventing unfair agreements. (See under the following headline).

Contracts between the employer and the employee that explicitly covers not only the employee's duties, but also the ownership of invention made by the employee are enforceable even if the only consideration<sup>193</sup> for the employee's performance is continued employment. An agreement of that type is a post-employment agreement, commonly known as a non-competition or pre-invention assignment agreement.<sup>194</sup> Through these agreements, the employee is compelled to assign all rights in his invention created by the employee on work-time, or in subject matters related to work, or through using resources belonging to the employer. In general, courts interpret these contracts in favour of the employer. Although employees

---

<sup>190</sup> Merges, Harv. J.L. & Tech., fall 1999, p. 6-7.

<sup>191</sup> United States v. Dubilier Condenser Corp., 289 U.S. 178, 187 (1933).

<sup>192</sup> Hovell, Notre Dame L. Rev., 1983, p. 875 and Merges, Harv. J.L. & Tech., fall 1999, p. 8.

<sup>193</sup> *Consideration* is an expression used in connection with contract law. For a requirement to be enforceable in the United States it has to be in writing and it has to be supported by consideration. Consideration is something (*e.g.*, a return promise or an act) for which the promisor has bargained and received in exchange for the promise.

<sup>194</sup> Pisegna-Cook, U. Balti. Intell. Prop. L.J., spring 1994, pp. 175-176.

may be discharged at any time, courts uniformly hold that even a brief period of continued employment after the signing of a pre-invention contract constitutes legal consideration for the employee's assignment of right in future inventions. Courts stretch to make these contracts binding even when they are not signed at the commencement of employment, they expire before the end of employment, they are signed after an employee has invented, or they otherwise fail to satisfy the traditional requirements for a binding contract. As with the default rules governing employee inventions the deck is stacked quite heavily in favour of employers.<sup>195</sup>

Through signing a pre-invention assignment agreement the employee is obligated to assign to the employer all interest in any future inventions devised during the employment term.<sup>196</sup> Assignment agreements are also used to remedy the uncertainty brought by the common law regarding inventions created after the termination of the inventor's employment.

A problem connected to this situation is how to establish when the thought and physical process involved in research and development become an "invention". In the case between *Jamesbury Corp. and Worcester Valve Co*<sup>197</sup> the Court of Appeals interpreted an employment contract that provided that the employee would, without further consideration, give the employer the "full benefit and enjoyment of any and all inventions or improvements which he may make while in the employ" of the company. The court held that where an employee has not put any of his ideas down in tangible form prior to the time he left employment, although the employee in this case began to make drawings or sketches of patent concepts two weeks after the termination of employment, the former employee is not considered to have made an invention within the meaning of contract that he would give the employee the benefit and enjoyment of any inventions he might make while employed.

In trying to overcome problems of this sort, employers have attempted to make employees assign any inventions developed after the termination of their employment. These types of agreements are called "trailer" or "hold-over" clauses. The employers are justifying these clauses by either holding that the basis for the invention was laid during the employee's previous employment, or that the former employer's technical information and resources played a major part in the inventions. The employers want to protect confidential information. The view of the courts on these types of clauses is that they constitute "unreasonable restraints of trade as applied to patentable inventions". The courts also hold that, trailer clauses which have a long or indefinite duration may also violate antitrust laws. The validity of the clause is determined by its reasonableness. A clause is found to be unreasonable if it:

---

<sup>195</sup> Merges, Harv. J.L. & Tech., fall 1999, pp. 8-9 and Bartow, Santa Clara L. Rev., 1997 p. 675.

<sup>196</sup> Pisegna-Cook, U. Balti. Intell. Prop. L.J., spring 1994, p. 171.

<sup>197</sup> 443 F.2d 205 (1<sup>st</sup> Cir. 1971).

- 1) extends beyond any apparent protection which the employer reasonably requires;
- 2) prevents the inventor from seeking other employment; or
- 3) unfavourably impacts the public.

As a conclusion, trailer clauses are valid when they are limited to a reasonable time and to the subject matter an inventor worked with or had knowledge of during his employment.<sup>198</sup>

When it comes to non-employees (consultants) the courts generally hold that this type of inventors owns their inventions completely unless a contract stipulates otherwise. If there on the other hand is an assignment agreement between the parties, courts are inclined to interpret the employee's obligations narrowly, in favour of consultants.<sup>199</sup>

Pre-invention assignment agreements are in general broad in scope with some covering the assignment of private inventions. Some agreements are limited to inventions that are related to the employer's business or made with the assistance of the employer's resources, while others are expansive and cover all inventions made during the contract term.<sup>200</sup> Certain agreements force the employee to assign inventions developed before his employment, and those to be created after leaving the employment (trailer- or holdover clauses).<sup>201</sup> In addition, these contracts regularly impose a number of related duties on employees, including

- (1) a duty to assign patent applications and patents to the employer,
- (2) a duty to assist in the patent prosecution, and
- (3) a general duty to co-operate in the perfection of the employer's rights in the invention.<sup>202</sup>

A typical pre-invention assignment agreement contains the following provisions:

*"The undersigned agrees that he will disclose to the Company all inventions, improvements, software, processes, ideas, and innovations (hereinafter referred to, for convenience only, as "Discoveries), made or conceived by him, whether or not patentable or copyrightable, either solely or in concert with others, and whether or not made or conceived during working hours, during the period of his employment, which (a) relate to the existing or contemplated business or research activities of the Company; (b) result from the use of the Company's proprietary information, facilities, or resources; or (c) arise out of or result from work performed for the Company. The undersigned further agrees to keep and complete records*

---

<sup>198</sup> Parker, S. Cal. L. Rev., May 1984, pp. 609-610 and Hovell, Notre Dame L. Rev., 1983, pp. 879-880.

<sup>199</sup> Merges, Harv. J.L. & Tech., fall 1999, p. 36.

<sup>200</sup> Pisegna-Cook, U. Balti. Intell. Prop. L.J., spring 1994, p. 172.

<sup>201</sup> Hovell, Notre Dame L. Rev., 1983, p. 876.

<sup>202</sup> Merges, Harv. J.L. & Tech., fall 1999, p. 8.



*concerning the development of discoveries as above defined and to tender such records to the company upon request.”*<sup>203</sup>

The widespread use of assignment agreements and the inherent disparity in bargaining power between inventors and employers has led to some reform attempts on state level, which will now be discussed.

## 4.4 State statutes

A pre-invention assignment agreement that is properly written and well-timed can fundamentally change the equitable common law allocation of invention ownership and transfer all ownership rights to the employer. As mentioned before, some states have however acknowledged that employees need to be protected considering the fact that employers are in a superior position in negotiations. The states have enacted statutes concerning pre-invention agreements.<sup>204</sup> The aim of the state statutes is to prevent employers from abusing their unequal bargaining power and this is done by limiting the type of inventions that an employer can contractually require an inventor to assign.<sup>205</sup> Eight states have, since 1977, passed legislation, which limits employer’s ownership claims over employee inventions.<sup>206</sup> In the states that do not have such statutes, common law continues to be applied.

The state legislation’s central purpose is seemingly to hinder employers from making the pre-invention assignment agreements, signed by their employees, too wide. The only category that employers are not allowed to include is, as mentioned above, private inventions unrelated to the employer’s actual or anticipated business or research, even though these statutes were designed to protect employees. The statutes protect employees

---

<sup>203</sup> Pisegna-Cook, U. Balti. Intell. Prop. L.J., spring 1994, p. 172.

<sup>204</sup> Pisegna-Cook, U. Balti. Intell. Prop. L.J., spring 1994, p. 177.

<sup>205</sup> Hovell, Notre Dame L. Rev., 1983, p. 881.

<sup>206</sup> The following states have passed legislation on pre-invention assignment contracts between employers and employees:

1. California, “*Inventions Made by an Employee*,” Cal. Lab. Code §§ 2870- 72 (West 1994) (enacted 1979);
2. Delaware, “*Protection of Employee’s Rights*,” Del. Code Ann. tit. 19, § 805 (1993) (enacted 1984);
3. Illinois, “*Employee Rights to Inventions - - Conditions*,” Ill. Ann. Stat. ch. 765, § 1060/2 (Smith-Hurd 1994) (enacted 1983);
4. Kansas, “*Employment Agreements Assigning Employee Rights in Inventions to Employer*,” Kan. Stat. Ann. §§ 44-130 (1993) (enacted 1986);
5. Minnesota, “*Agreements; Terms Relating to Inventions*,” Minn. Stat. Ann. § 181.78 (West 1994) (enacted 1977);
6. North Carolina, “*Employee’s Right to Certain Inventions*,” N.C. Gen. Stat. §§ 66-57.1-2 (1994) (enacted 1981);
7. Utah, “*When Agreements Between an Employee and Employer are Enforceable or Unenforceable with Respect to Employment Inventions – Exceptions*,” Utah Code Ann. §§ 43-39-1 to -3 (1994) (enacted 1989);
8. Washington, “*Requiring Assignment of Employee’s Rights to Inventions – Conditions*,” Wash. Rev. Code §§ 49.44.140- .150 (1994) (enacted 1979).

by providing that if an invention of this kind is included in an employment pre-invention agreement, the contract will be found unconscionable by the courts and struck down. All the other categories of employee inventions can be assigned to the employer by a pre-invention agreement. However, it is only the Utah statute that clearly states that employment or continued employment is adequate consideration for a pre-invention assignment agreement.<sup>207</sup>

Minnesota was the first state to pass legislation that limits the extent to which employees can be forced to assign invention rights and they did so in 1977. All the other state statutes have similar structure and content to the Minnesota statute, the only exception is the Utah statute. Between the other state statutes there are some minor variations on some provisions. The following are typical provisions included in the state statutes:<sup>208</sup>

1. Employment pre-invention assignment agreements shall not apply to an invention developed by employee on his or her own time and without using employer resources.
2. An exception to the rule just described may exist if the invention:
  - a) relates to the employer's business, or anticipated research or development of the employer; or
  - b) results from any work performed by the employee for the employer.
3. Any provision in an employment agreement requiring the employee to assign an invention exempted from assignment by a state statute and not an exception is against public policy and is void and unenforceable.<sup>209</sup>
4. The employer cannot require a provision that is unenforceable by way of the statute as a condition of employment or continued employment.
5. Employment agreements containing provisions to assign or offer to assign inventions must include written notification that the agreement does not apply to inventions as described under the statute.<sup>210</sup>
6. The burden of proof is on the employee to prove that an invention is not assignable because it meets the requirements of the statute and is not an exception.<sup>211</sup>
7. Confidential disclosures of inventions, made during the term of employment, are allowable for purposes of employer review.

---

<sup>207</sup> Pisegna-Cook, U. Balti. Intell. Prop. L.J., spring 1994, pp. 177-178.

<sup>208</sup> Pisegna-Cook, U. Balti. Intell. Prop. L.J., spring 1994, p. 178-180.

<sup>209</sup> Utah differs in that the statute does not specifically state that the agreement would be against public policy and void but only "not enforceable against the employee".

<sup>210</sup> This written notification clause is not included in the statutes from Delaware, North Carolina and Utah.

<sup>211</sup> The burden requirement is consistent with the common law burden of proof requirement that the employee must prove that he was the actual inventor and not the employer. Delaware, Minnesota and Utah statutes do not address a burden of proof.

The Minnesota statute contains a provision that states that the employer must inform the employee inventor in writing of all of the inventor's rights at the time of any agreement.<sup>212</sup>

The Utah statute (the most recently passed statute, 1989) differs, as mentioned earlier, from the other state statutes and is strongly employer-oriented. An example of this is that it makes it possible to assign an invention or a piece of intellectual property that was developed totally on the employee's own time and which is not an "employment invention" as long as the assignment is not a condition of employment or the continuation of employment. The statute demands that if an employee has assigned an invention that is not an "employment invention", that the employee receives consideration other than mere compensation for employment. As said before, (on page 43) consideration is something, which in this case the employee is to be given in exchange for his promise of assigning the invention to the employer. The provision in the Utah statute means therefore that the employee is given a right to be paid compensation in addition to his or her salary. The bargaining power between the employer and the employee is however unequal when pre-assigning the ownership rights since the value of an invention or a piece of intellectual property is difficult to determine.<sup>213</sup>

Another way in which the Utah statute differs is that it not only includes rights relating to employee inventions but all intellectual property. It also clearly states the employer's right to require pre-invention assignment agreements as a condition of employment or the continuation of employment. It is therefore clear that the consideration for employment-based inventions is employment or continuation of employment. This statute states the current majority view leaving no interpretation by the courts.<sup>214</sup>

Finally, it can be said that, the state statutes do not give employers ownership rights where no rights existed under the common law but the employers may obtain ownership in situations where the common law would only recognize a shop right - at least under the Washington and North Carolina Acts.<sup>215</sup> Even if these acts restore a contractual balance between the inventor and his employer, an inventor must still assign certain patents without present or future compensation.<sup>216</sup>

## 4.5 Compensation

Employee inventors are compensated by their employers in two ways. The first way is the commonly used internal reward system established in firms

---

<sup>212</sup> MINN. STAT. § 181.78 (Supp. 1983).

<sup>213</sup> Pisegna-Cook, U. Balti. Intell. Prop. L.J., spring 1994, pp. 180-181.

<sup>214</sup> Ibid.

<sup>215</sup> Parker, S. Cal. L. Rev., May 1984, p. 613.

<sup>216</sup> Hovell, Notre Dame L. Rev., 1983, pp. 882-883.

to reward their inventive employees. The second way is that the creative employee can leave a firm before an inventive concept has taken on concrete, tangible form. The employee's possibility to leave a company with an incomplete concept, with maybe venture capital backing, represents an important counterbalance to the rights of the employer firm. When one considers these two aspects of compensation the employee inventors appear to be much better off than the law of invention ownership alone might suggest.<sup>217</sup>

An employee who is employed to invent is looked upon as being directly compensated for his creations through his wages.<sup>218</sup>

As we can see, the employee inventors are not given any statutory right to compensation, and there are no default rules providing this either.

## **4.6 Criticism of the law governing employee inventions**

The fact that the ownership of employee inventions, by default or, more commonly by contract, usually rests with the employer has been widely criticised.<sup>219</sup> Almost all analyses of the rules governing employee inventions reach the same conclusion and that is that the current regulations are unfair to employees, they are one-sided in favour of employers, and ought to be changed. The critics are questioning why the employer should own the product of the employee's unique talent, skill and insight and hold that employer ownership diminishes the incentives to invent. They are of the opinion that it is morally and ethically wrong to allow businesses to exploit their employees by assuming rights to their invention. The critics are often focusing on the ownership as the only form of compensation for employees.<sup>220</sup> It is held that the state statutes possibly puts the employee inventor in a better bargaining position with respect to her employer, but on the other hand, the agreements still acquire the employee to assign certain rights without receiving any compensation.<sup>221</sup>

Criticism on the methods used in common law for allocating the ownership of patent rights do not maximize ingenuity because an employer can obtain an inventor's patent rights before the invention has even been created.<sup>222</sup>

Most reformers agree that the employed inventor is undercompensated. They are not, however, agreeing on which method for increasing the inventor's compensation that is the best. They are also not agreeing on what

---

<sup>217</sup> Merges, *Harv. J.L. & Tech.*, fall 1999, p. 3.

<sup>218</sup> Hershovitz, *Journal of Intellectual Property Law*, fall 1995, pp. 194-195.

<sup>219</sup> See Bartow, *Santa Clara L. Rev.*, 1997, p. 673, Cherenksy, *Calif. L. Rev.*, 1993, p.597.

<sup>220</sup> Merges, *Harv. J.L. & Tech.*, fall 1999, pp. 2 and 10.

<sup>221</sup> Bartow, *Santa Clara L. Rev.*, 1997, p. 713.

<sup>222</sup> Hovell, *Notre Dame L. Rev.*, 1983, p. 888.

amount the employer should retain as compensation of his investment in research and development.<sup>223</sup> A frequently proposed solution is to bring US law more in line with European law. According to the author of the article “*The law and economics of employee inventions*”, this might be accomplished by making employee ownership the default rule or by establishing a system to compensate employees fairly.<sup>224</sup> Evelyn D. Pisegna-Cook gives in her article (see the bibliography for all the details on the article) a suggestion, which she considers to be very bold. She suggests that state legislation could include a provision stating that compensation above regular salary should be mandatory for inventions covered under a pre-invention assignment agreement. By implementing such a provision would serve as a statement that employment or continued employment is not adequate consideration for the agreement. A regulation of this kind could however lead to that employers leave a state or hesitate to move to a state where provisions of this kind are implemented because of the potential risk of losing profit. Another possible consequence could be that the top-employees, on the other hand, becomes encouraged to seek employment within a state where they would obtain benefit for inventive skills.<sup>225</sup>

Another problem discussed in the literature is the fact that the state assignment laws do not address how to deal with multistate corporations. (H. D. Parker sees this problem as the most forceful reason for adopting federal legislation). A possible scenario is that an employee of a multistate corporation signs an excessively restrictive assignment agreement while working in New York City and then transfers to the corporation’s office in Los Angeles. Is the agreement still effective? California State statutes that govern permitted assignment agreements could possibly require a corporation to develop distinct employee agreement formats for each state in which it operates, with the result of non-uniformity among employee assignment agreements and confusion for all concerned.<sup>226</sup>

---

<sup>223</sup> Hovell, *Notre Dame L. Rev.*, 1983, pp. 880-881.

<sup>224</sup> Merges, *Harv. J.L.w & Tech.*, fall 1999, p. 11.

<sup>225</sup> Pisegna-Cook, *U. Balti. Intell. Prop. L.J.*, spring 1994, p. 185.

<sup>226</sup> Parker, *S. Cal. L. Rev.*, May 1984, p. 614.

## 5 Concluding remarks

The most apparent difference when comparing the systems in Sweden, the UK and the US is that the United States has no national statutory regulation on employed inventors' rights. It is only in eight (of fifty-two) states in America that statutes exist at all. Sweden has chosen another approach; a specific regulation has been established in which all the rules regarding ownership of employee inventions have been gathered. England, on the other hand, has again chosen another approach; their provisions are integrated in the regulation on patents.

How the rules are incorporated into the legal system is, I suppose, not that important. I think, however, that at least the employee inventors in the US would benefit if the rules in their country, as well, were incorporated into an act of some sort. The best would perhaps be if a federal law was issued. Then there would not be any uncertainties about the legal situation in different states since it would be the same in the whole country. The employees would benefit from a legislative measure of this kind because it would equalize the bargaining power between them and the employers since the employer through the legislation would not be as free to write pre-assigning agreements as they are today. There have been attempts to introduce federal law but they have not led to any legislation, the reason for this is, as I understand, that the United States Congress is "pro-employer". Therefore, it does not seem to be an easy task to follow my suggestion. One solution might, however, be to legislate more on state level.

The bargaining power between the employer and the employee is, as said, unequal and this is from the view of the US employee inventors a problem. A way in which the legislations in the UK and Sweden have dealt with this problem is through prohibiting employers from making employees assign their rights in future inventions. These types of contracts are only prohibited in some states and this, of course, constitute a huge advantage for the employers.

From the description earlier in the essay, it is clear that the three systems use, basically the same method for establishing ownership. They all divide employee inventions into different categories, based on the duties of the employee at the time of the creation of the invention. The rights the employers are given in the various types of employee inventions are somewhat similar when comparing the countries. One difference is that the regulation in UK does only provide employers with either a right to the whole invention or none at all. In Sweden and in the US, the entitlement to some types of inventions are sometimes divided between the employer and the employee (through "shop right" in the US and "enkel licens" in Sweden).

LATU is different from the systems in the other countries in that there is no obligation for employee inventors to assign rights in their inventions because of a duty they have towards their employer to further his interests. Compare this with “fiduciary duty” in the US and “special obligation” in England. This duty or obligation can be compared with, what in Sweden is called, “*lojalitetsplikt*” (the duty of good faith). The duty obligates the employee to put the interests of the employer first and avoid conflict-situations. These obligations can, as explained in chapter two, effect certain situations concerning employee inventions. An employee inventor cannot, however, be forced to assign any rights in his inventions only because his duty of good faith.

During the work with this essay I came across an article written by Berndt Godenhielm in which he made a comparative study between legislation of employee-inventions. Godenhielm made a distinction between three different ways of handling employee compensation. Some of the conclusions that Godenhielm draw can be applicable to the systems explained in this essay. He was of the opinion that some countries base their legislation on employment law (he called it the “master and servant” approach) while the legislation in other countries is based on patent law (the patent law approach) or on a socialistic view (the socialistic approach).<sup>227</sup>

When looking at the countries’ views on compensation to employee inventions it is quite obvious that they differ. The employee inventors in Sweden and the UK are provided with better rights to compensation than there equivalence in America. These legislations hold that an employer cannot force his employee to sign away his right to compensation. The employees in the US have no statutory right (other than what the eight state statutes might provide) to be compensated for the right to their invention which they might be forced to give up, either through default rules, or contracts. The reality is that most employees are forced to assign all their patent rights without receiving any compensation except their salary or a promise of continued employment.

If the distinctions made by Godenhielm are applied to these three systems it is easy to see why compensation is handled differently, it is connected with how the provisions regarding employee inventions are based. LATU and the Patent Act 1977 are typical examples of legislations based on *the patent law approach*. The *patent law approach* is founded on the view that an invention belongs to the inventor and legislations based on this approach hold that also employee inventions belong to the inventor. An employer must, according to these regulations, pay a specific compensation to the employee inventor if he would like to take over any rights in the invention.<sup>228</sup>

LATU ought to, as I said, be a typical example of employee invention legislation based on patent law. I base this opinion on the fact that the

---

<sup>227</sup> Godenhielm, *International Encyclopedia of Comparative Law*, 1975, p. 67.

<sup>228</sup> Godenhielm, *International Encyclopedia of Comparative Law*, 1975, p. 71.

principal rule in LATU (article 2) states that employees have the same right to their inventions as other inventors, if nothing else follows from the regulation. (Not only the Swedish legislation, but also the regulations in the other Nordic countries, have this foundation since they all are so closely connected).<sup>229</sup> The US legislation, on the other hand, is based on *the master and servant approach* (a labour law approach). This approach is based on the view that employees principally do not have a right to be specially compensated. The invention is looked upon as a result of the work of the employee and should therefore belong to the employer.<sup>230</sup>

When considering that the legislation in Sweden and the UK, and the US on the other hand, are based on these diverse approaches it becomes clear why they provide so different rights for employee inventors.

A question that might come to mind after reading the essay is what happens with the right the employer has received if the employer's business is sold. Unfortunately, I have not been able to find as much information about this as I hoped. The situation in Sweden is nevertheless quite clear; a right for the employer to utilize the invention in his business passes to a purchaser of the business. The situation in the US is clear regarding shop right; it passes to a purchaser of the business and this is the case even if the purchaser distributes the assets in the company to various existing subsidiaries. How these matters function in the United Kingdom, I do not know.

What I would like to say to conclude this essay is that it is important that the regulations on employee inventions have to be balanced between; on one side finding incentives for employees to develop creations and the employers' right utilize inventions created by his employees during working time and with the help of his facilities and equipment.

---

<sup>229</sup> Other countries with regulations characterized by the *patent law approach* is according to Godenhielm; Germany, Austria, Israel and Japan.

<sup>230</sup> Godenhielm, *International Encyclopedia of Comparative Law*, 1975, p. 68.



# Bibliography

## Books

Adlercreutz, Axel (1997) “*Svensk arbetsrätt*”. Norstedts Juridik, Kristianstad. [cit. Adlercreutz]

Barry Léon Appleby, Barry Léon (1984) “*Elsevier’s dictionary of commercial terms and phrases*”. Elsevier Science Publishers B.V, The Netherlands. [cit. Appleby]

Bogdan, Michael (1996) *Komparativ rättskunskap*. Edition 1:2, Stockholm, Norstedts Juridik AB. [cit. Bogdan]

Bruun, Niclas (1982) *Uppfinnarrätt i anställningsförhållande: en rättsdogmatisk studie av lagen om rätt till arbetstagares uppfinningar*. Helsingfors, Finlands juristförbunds förlag. [cit. Bruun, 1982]

Cornish, W. R (1996) *Intellectual Property: patents, copyright, trade marks and allied rights*. Third edition, London, Sweet & Maxwell. [cit. Cornish]

Farnsworth, E. Allan (1996) *An introduction to the legal system of the United States*. Third edition, New York, Oceana Publications. [cit. Farnsworth]

Foster, H. Frank and Shook, L. Shook (1989) *Patents, Copyrights & Trademarks*. United States of America, John Wiley & Sons, Inc. [cit. Foster and Shook]

Irish, Vivian (1994) *Intellectual Property rights for engineers*. Exeter, Short Run Press Ltd. [cit. Irish]

Jacobsson, Måns, Tersmeden, Erik, Törnroth, Lennarth (1980) *Patentlagstiftningen – en kommentar*. Lund, P A Norstedt & Söners förlag. [cit. Jacobsson and others]

Koktvedgaard, Mogens & Levin, Marianne (2001) *Lärobok i immaterialrätt*. Sixth edition, Göteborg: Norstedts Juridik. [cit. Koktvedgaard and Levin]

Reid, Brian C. (1999) *A Practical Guide to Patent Law*. Third edition, London, Sweet & Maxwell Limited. [cit. Reid]

Slapper, Gary and David, Kelly (2000) *English Law*, Great Britain, Cavendish Publishing Limited. [cit. Slapper and Kelly]

Sundström, Lennart (1997) *Nya handboken för uppfinnare, innovatörer & entreprenörer*. Informationsförlaget. [cit. Sundström]

Terrell, Thomas (2000) *“Terrell on the law of patents”*. Sweet & Maxwell, London. [cit. Terrell]

### Articles

Baker, Mark B. and Brunel, Andre J (1991) “Restructuring the judicial evaluation of employed inventors rights”. *Saint Louis University Law Journal*. Winter 1991, p. 399. [cit. Baker and Brunel, St. Louis U. L. J., winter 1991]

Bartow, Ann (1997) “Inventors of the world, unite! A call for collective action by employee-inventors”. *Santa Clara Law Review*. 1997, p. 673. [cit. Bartow, Santa Clara L. Rev., 1997]

Chandler P. A. (1997) “Employees’ Inventions: Inventorship and Ownership”. *European Intellectual Property Review*. 1997, Issue 5, p. 262. (Article collected among others in the book; “Readings in Intellectual Property – A selection of Articles from EIPR and Ent. L.R” by the editors Alison Firth, Shelley Lane and Yvonne Smyth, 1998, London, Sweet & Maxwell, p. 474). [cit. Chandler, European Intellectual Property Review, 1997]

Cherensky, Steven (1993) “A penny for their thoughts: Employee-inventors, preinvention assignment agreements, property and personhood”. *California Law Review*. March 1993, p. 597. [cit. Cherensky, Calif. L. Rev., March 1993]

Godenhillem, Berndt (1975) “Employee Inventions”. *International Encyclopedia of Comparative Law*. Volume XIV. Copyright and Industrial Property. Chapter 7. Tübingen, Mouton, The Hague, Paris 1975. [cit. Godenhillem, International Encyclopedia of Comparative Law, 1975]

Godenhillem, Berndt (1978) ”Synpunkter på arbetstagaras uppfinningar”. Föredrag vid svenska föreningen för industriellt rättsskydd 7/3 1978, *NIR* 1978:178. [cit. Godenhillem, NIR, 1978]

Hershovitz, Marc B. (1995) “Unhitching the trailer clause: the rights of inventive employees and their employers”. *Journal of Intellectual Property Law*. Fall 1995, p. 187. [cit. Hershovitz, Journal of Intellectual Property Law, fall 1995]

Hodkinson, Keith (1986) “Employee inventions and designs: Part 1 – ownership claims and compensation”. *Company Lawyer*. 1986, p. 146. [cit. Hodkinson, Comp. Law., 1986]

Hovell, William P. (1983) “Patent ownership: an employer’s rights to his employee’s invention”. *Notre Dame Law Review*. 1983, p. 863. [cit. Hovell, Notre Dame L. Rev., 1983]

Merges, Robert P. (1999) “The law and economics of employee inventions”. *Harvard Journal of Law and Technology*. Fall 1999, p. 1. [cit. Merges, Harv. J.L. & Tech., fall 1999]

Thomas, John A. (1999) “Who owns the invention?” *Texas Bar Journal*. November 1999, p. 996. [cit. Thomas, Tex. B.J., November 1999]

Parker, Henrik D. (1984) “Reform for rights of employed inventors”. *Southern California Law Review*. May 1984, p. 603. [cit. Parker, S. Cal. L. Rev., May 1984]

Pisegna-Cook, Evelyn D. (1994) “Ownership rights of employee inventions” The role of preinvention assignment agreements and state statutes”. *University of Baltimore Intellectual Property Law Journal*. Spring 1994, p. 163. [cit. Pisegna-Cook, U. Balt. Intell. Prop. L.J., spring 1994]

Wadley, J. and Brown, J. (1999) “Protecting intellectual property rights in the workplace”. *Journal of the Kansas Bar Association*. September 1999, p. Publication page references were not available for this document. [cit. Wadley and Brown, J. Kan.B.A., September 1999]

#### Publications of public nature

SOU 1946:21

Prop 101/1949

# Table of Cases

## Cases from Sweden

AD 1982 nr 21

AD 1983 nr 19

## Cases from England

British Steel Plc's Patent (1992) R.P.C. 117,

Electrolux Ltd v. Hudson (1977) FSR 312.

GEC Avionic's Patent (1992) R.P.C. 107.

Memco-Med Ltd's Patent (1992) R.P.C. 403

Worthington v. Moore (1903) 20 R. P. C. 41.

## Cases from United States

Banner Metals, Inc. v. Lockwood, 178 Cal. App.2d 643, 3 Cal. Rptr. 421 (1960)

Daniel Orifice Fitting Co. v. Whalen, 198 Cal. App.2d 791. 18 Cal.Rptr. 659 (1962)

Dowes v. Federal Rubber Co., F.308 (N.S. Ill. 1989)

Standard Parts Co. v. Peck, 264 U.S. 52, 59-60 (1924)

Tripps v. United States, 406 F.2d 1066 (St. Sl. 1969)

United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933)

United States v. Snepp, 595 F.2d 926 (4<sup>th</sup> Cir. 1979)

Wommack v. Durham Pecan Plant, 715 F.2d 962, 965 (5<sup>th</sup> Cir. 1983)

Jamesbury Corp. v. Worcester Valve Co., 443 F.2d 205 (1<sup>st</sup> Dir. 1971)