

Patent Ownership When Your R&D Staff Depart

by Selena Kim, LLB

As a patent practitioner, I spend a lot of time securing assignments from inventor employees on patent applications, so that their employers can apply for and own the resulting intellectual property. Many people assume that inventions of full-time employees are automatically owned by the company, but this is not always the case. In fact, practices can differ widely depending on the type of employee and the jurisdiction at issue.

This article illustrates some key differences by considering a case study and providing commentary on legal implications and practices in Canada and the United States.

To start, let's say that you have hired an information technology helpdesk technician named Yuki, on an employment contract appropriate for a full-time helpdesk employee.

Yuki gets inspired by your company's learning culture and promote-from-within policies to build her technical skills. She starts doing work that supports the company's Research and Development (R&D) efforts, in addition to her helpdesk duties. Soon, she finds passion in developing R&D and is off the helpdesk and doing R&D full time. You find her work to be of such high quality, you start entrusting her with creating some key parts of your product's mechanism.

Yuki does such great work that it is no surprise when she informs you that she has been headhunted by another company to work in their R&D department.

You are disappointed to be losing a key employee, but you are reassured that at least you have full ownership of the inventions she created while she was an employee of your company.

But this may not be the case.

Depending on the situation, maybe you will find that, in fact, Yuki owns the rights to her inventions. Hence, you find yourself negotiating to buy those rights from your ex-employee – who is in a great negotiating position as she is now well aware of how important those inventions are to you and your business.

The Importance of Employment Contracts That Match the Role

Situations involving employment contracts for employees are different, and dealing with them requires professional advice. But experience supporting employers in such situations prompts a question – what was in the employment contract Yuki signed? And when she started doing R&D work, did she sign a new contract appropriate to her new role, which contained the appropriate assignments of IP to your company?

Many people assume that work created on the employer's time and using employer resources will be owned by the employer. While this appears reasonable, it is a misconception. The basic presumption in Canadian law is that the employee owns everything they create.

In Canada, ownership will go to the company only in two specific circumstances: (a) there's a specific agreement with the employee providing that anything the employee invents of a specific type is going to be owned by the company, or (b) the employee was "hired to innovate" – an

inquiry that often results in a grey area which requires expensive assessment and resolution by a Court or arbitrator.

In the United States, the inventor of an invention is presumed to be the owner of a patent application and any resulting granted patent, unless there is an assignment of rights, which should be recorded with the United States Patent and Trademark Office (USPTO). Even if the employment contract provides for an automatic assignment of patent rights to the employer, and legal title is conveyed to the employer upon creation of the invention, it is still necessary to record ownership in the USPTO. Alternatively, an employer and employee may enter into an agreement for the purchase and sale of any IP asset.

There is also a common law rule established in *United States v Dubliner Condenser Corp.* (1933), known as the "hired-to-invent" doctrine, which states that the employee inventor has a legal obligation to assign any patent rights in relation to an invention to their employer if the employee is specifically hired to invent, and if the invention is the precise subject of their employment contract. The hired-to-invent doctrine is subject to an examination of the nature of the employment relationship at the time of the inventive work. The employment contract will not be construed to require an assignment of the patent to the employer if the employee's employment is general to a field of work and the invention was conceived in performance of the work within that field. However, if they are given a specific task of developing an invention, they are more likely to be required to cede ownership of any invention resulting from that task to the employer.

The problem with relying on the "hired-to-invent" doctrine is the grey area that often results. Like the "hired to innovate" doctrine in Canada, it is possible for reasonable parties to interpret the situation and facts differently, which can then require expensive third party adjudication to resolve. Having clear agreements in place is a much better way to avoid these issues.

Be Proactive About IP Ownership

For patented or patentable inventions, it is best practice to execute an agreement for patent assignment that compensates the employee for the invention separately from their usual employment compensation. In case of inadequacies in the IP transfer provisions in the existing employment agreement, such a practice can provide the basis and consideration important to validate the transfer.

Alternatively, if the invention is subject to patent protection and the employee owns it, the employer may license the use of the invention from the employee. In addition, the employer may be entitled to a "shop right"; that is, a non-exclusive and non-transferable royalty-free licence. A shop right may be implied under principles of equity and fairness, depending on the relevant circumstances. However it is important to note that the shop-right doctrine merely creates a defence to patent infringement and does not constitute an ownership interest.

In our hypothetical situation, when Yuki was hired as a helpdesk technician, it was appropriate to have a contract that discussed a helpdesk technician's duties as this was her sole focus at the company. However, when she moved into her new role developing R&D, it would have been best to examine that contract and see if it is appropriate to her new work. The roles and duties of a helpdesk technician and a developer are vastly different, therefore, if it does not discuss matters appropriate to Yuki as an inventor, it is essential to develop and have her sign a new contract appropriate to her new role.

In our experience, many companies miss this step – through lack of knowledge, or too many other priorities, or they are avoiding a discussion that might result in having to increase the employee's compensation.

Checklist for Avoiding Patent Ownership Issues

Here are some steps that employers can take to avoid disruptive issues over the ownership of intellectual property that employees create.

Make sure that employee contracts are in place: There has been more than one case in which a start-up hires employees informally, without employment contracts. Depending on your company's history, it is wise to check the records for each employee to be sure that there is an employment agreement in place.

Keep employment contracts in tune with current roles: Whenever an employee is promoted or moves into a new role, ensure that their new duties match what is in their employment contract – particularly if that new role includes creating new IP. If so, draw up and have them sign new contracts.

Compensate employees separately for creations and inventions: Do not be grateful yet cheap. If an employee (such as Yuki) creates something valuable for the company that is not in their job description, prepare an agreement and purchase the asset, paying the employee separately from their usual compensation package. Such a practice will often incentivize other employees to innovate, all to the benefit of the company.

Be able to prove the origin of work done on your company's behalf – including storing records centrally, and keeping control over who has access to them. This includes work done by both employees and by third-party independent contractors brought in for a specific project.

Make an invention disclosure policy, through which each invention your company works on is described in detail. This is a document often written by a scientist or engineer. These should be prepared around the same time when the invention was made, and updated if new improvements are added later. Emphasize in your policy that the company will own all inventions described in invention disclosures.

Compensate inventors for completing invention disclosure statements. Money motivates many people to go the extra mile, so many companies pay bonuses for completed invention disclosure statements. You can also offer further compensation if you end up filing for patent protection on that invention, or generating revenue from the invention.

Get invention-specific assignments signed by the inventors right away. Often, substantial time passes between creation of the invention and deciding to apply for a patent. In that intervening time, it is very common that one or more inventors of the technology leave the company. Once no longer employees, inventors can be difficult to track down, or to persuade to sign documentation for their old employer. Get their signatures right away after the invention is finalized, or at least before they leave the company. This practice saves a LOT of time and expense later.

The information in this article is for information only, and should not be considered legal advice. For guidance on your specific situation, consult a qualified professional.

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