

Shop Rights And Joint Ownership Issues

AIPPI Asian IP Conference — 7-11 May 2010, Busan, Korea

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This is a reprint of a paper given to the AIPPI Asian IP Conference in Busan, Korea on 10 May 2010, with suitable changes to allow for printing.

Outside the United States of America, the term “shop rights” remains something of a mystery. It does not appear that there are corresponding provisions anywhere else. However, there are somewhat similar provisions in some countries, such as Germany.

Briefly, “shop rights” mean that, in the absence of a contract to the contrary, United States of America state law may confer on an employer a royalty-free, personal licence (non-exclusive, non-transferrable) to exploit an invention where the invention was made by an employee using information or other resources of the employer or on company time where that employee was not hired to invent or was not given specific instructions in relation to the invention.

No ownership rights are conferred on the employer, and therefore no joint ownership issue arises specifically as a result of shop rights. This article therefore covers two reasonably distinct issues, but they are bridged by the general question of ownership of inventions. Many resources have been relied upon in preparing this article, particularly the articles *How to Reward Inventive Employees* by Suzy Groom in the June 2008 edition of *Managing Intellectual Property* and *Rights to Inventions: Employers v. Employees* at www.freibun.com by Eric Freibun, as well as Justice French’s decision in the Australian case *University of Western Australia v. Gray* [2009] FCAFC 116.

A first point to make on the ownership question is that in all major jurisdictions the law governing the ownership of rights in inventions made by employees is the domestic law of the country where the contract of employment or relevant assignment is made. Except for most common law countries, such as Canada, the United States of America, Australia, New Zealand and South Africa, and one or two others, most industrialised countries have established statutory provisions regarding the ownership of inventions made by employees. Many of these countries have provisions for compensating employee inventors, but that is beyond the scope of this article.

Countries with Statutory Provisions

Europe

Article 60 of the European Patent Convention establishes that where an inventor is an employee, the right to a European patent shall be determined according to the law of the state in which the inventor is mainly employed.

Germany

German Employee Invention Law considers an invention made during the course of employment as a ‘service invention’. Upon creation, the employee has an obligation to notify the employer of the invention in a written document without delay. Failure to do so may result in an abeyance of the employee’s invention rights. Once complete notification has been given, the employer has four months to claim the invention in exchange for monetary compensation for the employee.

Inventions that are not made during the course of employment are considered “free inventions” and remain the property of the employee. The employee is obliged to inform the employer about the invention and offer the employer at least a non-exclusive right to use the invention on reasonable terms. Subsequently, the employer has three months to either deny that the invention is “free” or accept the offer of a non-exclusive right to use.

United Kingdom

The statutory provisions make clear that inventions made by employees in the UK belong to the employer if they were made in the course of:

- The employee’s normal duties;
- Duties falling outside normal duties, but specifically assigned to the employee; or
- The employee’s duties (not *normal*) in circumstances in which the employee had a special obligation to further the interests of the employer’s undertaking.

There are no provisions for other inventions owned by the employee to be used by the employer.

Japan

As in Germany, an invention made in the course of a Japanese employee’s duties initially belongs to the employee, even though the invention may fall within

the activities of the employer's business and was the result of endeavours within the scope of employment. The employer may enter into a specific contract with the employee to acquire the invention, or may in advance have established internal regulations that require employees to assign inventions to it. In either case, the employer must pay reasonable compensation to the employee, which in recent years has been construed generously to employees by the courts.

China

Where the invention is made in China and is a 'service invention' the right to apply for and be granted a patent belongs to the employer. A service invention is an invention made in execution of the tasks of the employer, including any invention made in the course of performing the employee inventor's duties, or in execution of any other task specifically entrusted to the employee, or within one year after the employee's resignation, retirement or change of work in either of the above circumstances. The employee may be permanent or temporary.

A service invention belonging to the employer is also one made by mainly using the material or technical means of the employer, including money, equipment, spare parts, raw materials or confidential material, even if, for example, the use is out of work hours.

Korea

The broad provisions in Korea are similar to those in Germany. An employee inventor must notify the employer upon completion of an invention made in the course of his employment, and the employer then has four months within which to agree to have the invention assigned to it or reject it. If the employer fails to provide notification of acceptance or rejection within the designated time period, the employer forfeits rights to the invention, and the invention becomes free or independent. In this situation, the employer can no longer become a non-exclusive licensee without the consent of the employee. However, if the employer provides notification of acceptance or rejection within the designated time period, the employer may still become a non-exclusive licensee without the consent of the employee.

In those countries without legislative provisions as to the ownership of inventions, heavy reliance is placed on contracts of employment or similar agreements. While it is sadly all too common that the provisions covering inventive employees are not entirely clear, the situation can become very muddled when there are no contractual provisions at all.

Common Law Countries

United States Of America

Where there is no enforceable agreement between an inventor employee and the employer as to the ownership of the invention, the common law of the state in which the employee works will determine who owns it.

There are three general principles that will usually apply, bearing in mind that state laws may differ from each other:

1. If an employee is not hired specifically to invent anything, any invention made during the course of the employment will be owned by the employee, even where the invention relates to the employer's business;

2. The same is true even if the inventor is hired to invent, where the employer only has a desired result in mind and does not give the employee instructions as to the means to achieve that result;

3. If an employee is hired to create a specific invention and the employer provides the means, including instructions, for the employee to bring it in to effect, the employer will be the owner of the invention, or at least will have an implied agreement for the invention to be assigned to it, provided the invention is within the scope of the inventor's employment and relates to the employer's business.

There have been plenty of decisions on ownership of inventions in the absence of specific clauses in employment contracts. Additional issues that a court may look at in determining ownership of an invention include whether the employee received additional compensation for developing the invention, whether the employee filed and paid for his own patent application, whether the employee was also an officer or director of the company, and whether other employees have been permitted to file and retain their own patent applications.

Absent a contract to the contrary, a person who is employed to research (as opposed to invent), but who does make an invention is likely to retain ownership of the invention as well as the right to exploit it. These very restricted common law bases for employers to own employee inventions in the United States of America are the reasons why companies

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usually require employees who may invent to sign contracts that specifically provide for ownership of such inventions to be assigned to the employer. They are also the basis for the United States of America shop rights provisions by which the employer may get that restricted non-exclusive, royalty free licence to exploit the invention when it does in fact remain under the ownership of the employee.

As discussed above, a shop right will generally only arise where an employee has used the employer's time, materials or equipment in creating the invention and where the invention is within the employer's normal field of business. The shop right can continue even after the inventor has left the employ of the employer, but it will expire with the patent. Shop rights may also extend to inventions made by independent contractors.

A major decision on shop rights in the United States of America is *Dubilier Condenser Corporation* 289 U.S. 178 (1933). The inventors were employed by the United States of America Bureau of Standards and were given particular projects on which to work. With their employer's permission they became interested in another project to which they had not been assigned. They invented a device relevant to that project, obtained a patent on it and licenced it exclusively to Dubilier Condenser Corporation. The Supreme Court subsequently held that even though they had used workplace facilities to develop the idea, their employer had given them permission to do so which was not conditional upon their undertaking to assign the patent that resulted. That observation reflected what the Court called "[t]he reluctance of courts to imply or infer an agreement by the employee to assign his patent." That reluctance was said to be based upon the particular nature of the act of invention and the distinction between that act and that of the discovery of the laws of nature.

The Court said in relation to ownership (at 187):

One employed to make an invention, who succeeds, during his term of service, in accomplishing that task, is bound to assign to his employer any patent obtained. The reason is that he has only produced that which he was employed to invent. His invention is the precise subject of the contract of employment ... On the other hand if the employment be general, albeit it covers a field of labour and effort in the performance of which the employee conceives the invention for which he obtained the patent, a contract is not so broadly construed as to require an assignment of the patent.

The court went on to explain shop rights thus (at 188-189):

Since the servant uses his master's time, facilities and materials to attain a concrete result, the latter is in equity entitled to use that which embodies his own property and to duplicate it as often as he may find occasion to employ similar appliances in his business. But the employer in such a case has no equity to demand a conveyance of the invention, which is the original conception of the employee alone, in which the employer had no part. This remains the property of him who conceived it, together with the right conferred by the patent to exclude all others than the employer from the accruing benefits.

Many cases since have applied the Dubilier principle.

Although the employee may be obliged to grant the limited licence to the employer, he is still free to grant a more attractive licence, from his perspective, to another party, who could be the employer's major competitor. Faced with this prospect, the employer may decide to negotiate with the employee for a better deal from its perspective, but it is well to recall that this could have been avoided if the employer had spent a little more time on its employment contracts.

Australia

As repeated by Justice Spender in the very recent appeal decision of *Richwood Creek Pty Ltd v Williams* [2010] FCA 196:

Employers' rights in the inventions of employees are not governed by statute but by common law and equitable principles which clearly show that in the absence of any express contractual obligation there is no rule that an invention made by an employee is inevitably the property of the employer. It is instead necessary to determine whether the employment relationship suggests that the invention concerned was made in the course of the employment or, in other words, whether it (the invention) is something it was the employee's job to invent.

This was an appeal from an opposition decision by the patent office, and the court concluded there was not enough information before it to find that the employment relationship suggested the invention was made in the course of the inventor's employment.

As in the United States of America and other common law countries, there have been plenty of decisions concerning ownership of inventions. In one Australia case, *Preston Erection Pty Ltd v Speedy Gantry Hire Pty Ltd* [1998] FCA 1615, a patent was granted to an employer but the company was unable to show any formal assignment from the inventor employee. However, the court held that an assign-

ment could be implied by the conduct of the parties and that the employer would have been entitled to call for specific performance of the inventor's contractual promise.

In other cases, such as *Spencer Industries Pty Ltd v Collins* [2003] FCA 542, the decision has gone in favour of the employee. In this case the employee was a senior technical sales person and the invention related to a product that he was employed to sell. However, the court decided that it was not part of the employee's normal duty to make inventive improvements to the product.

Two Australian decisions have covered the interesting position of university or academic inventors, with opposite outcomes. In the first, *Victoria University of Technology v Kenneth Gregory Wilson & Ors* (2004) 60 IPR 392, a professor and a senior lecturer employed by the university and a former student of one of them, together with a company formed by them, filed a provisional patent application for an invention they had developed. The issues for the court were whether the university was entitled to ownership of the invention and whether the inventors had breached any fiduciary duty they owed to the university.

The court found that the research undertaken by the inventors in developing the invention was not research they had been formally engaged to perform as part of their roles with the university. Nevertheless, it was found they undertook the work on behalf of the university, not in a private capacity, and continued with the work on that basis and for the benefit of the university until they decided to file the patent application in their own names following legal advice. The Court concluded that although it was not the sort of research envisaged in their terms of engagement, it was work undertaken in the course of their employment and therefore the property of the university. The court also found the inventors had breached their fiduciary duty in taking the invention for themselves, albeit unwittingly, on the basis that the opportunity to work on the research had arisen as a result of the inventors' employment by the university, that they had begun the research in that capacity, and that there was a likelihood the university would have wished to be involved in the research.

There is an interesting outcome to this case, related in a way to shop rights. By the time the matter came before the court, a number of third parties had invested in the development of software that came out of the invention—a share trading system—and shares had been issued in the company and traded.

Since inventing was not explicitly part of the university employees' terms of engagement, those terms did not cover compensating employees for inventions. Nevertheless, the court concluded, partly because of the now publicly-owned nature of the development and its success, that the employee inventors were entitled to compensation for their efforts up to the time of filing the patent application, plus interest. In effect, the court concluded that not all of the benefit should go to the university.

Summarising the court's reasoning, this is what was said in an appeal concerning the amount of the compensation:

If the employee inventors had not of their own initiative assumed the role of conceiving, designing and developing the invention and the software, the university would have had to employ an expert such as the employee inventors to do it for the university. If trustees had come to the university court asking for liberty to employ such a person, they would in all probability have been authorised to do so, and to remunerate the person in question. As a matter of commercial reality, the offer of such remuneration... must have been attractive, but not over-generous...

The two employee inventors sought about AU\$6.5m each, but the court thought that would be over-generous and sent the matter off to an independent assessor. The final amount is not important, but what is interesting is that the employee inventors were rewarded for their efforts even though there was no obligation to do so. This is not quite a reverse shop right, but almost.

In the second university decision, the Australian Full Federal Court upheld the first instance decision in *University of Western Australia v Gray* [2009] FCAFC 116. This complex case resulted from the claim by University of Western Australia (UWA) that it had proprietary rights in relation to three families of patents invented wholly or in part by Dr. Gray. The patents were subsequently transferred to a company in exchange for shares in the company reportedly valued at A\$60-90 million, so in terms of Australian patent decisions a lot of money was involved in this one. It was UWA's position that the work leading to the inventions was conducted by Dr. Gray while he was employed by UWA as its Professor of Surgery. Under the terms of his employment contract Dr. Gray was required to teach and to undertake research in his field. He was also required to comply with obligations under the University's statutes.

In a single judgement the Full Court agreed with the first instance decision that the duty to research

in Dr. Gray's employment contract did not give rise to an implied duty to invent, even though the nature of Dr. Gray's research was such that inventions could quite likely result. In making this decision the Full Court noted the distinction between ownership of employee inventions in the University context and in the private sector. Supporting factors in reaching the decision were that Dr. Gray was not under a duty to invent anything, he had the freedom to choose the direction of his research, he was not under an obligation of secrecy and was free to publish (even to the detriment of potential patent applications), he was dependent upon significant sources of external funding to support his research and was reliant upon collaborations with researchers in other institutions.

The Full Court also agreed with the primary judge's finding that the obligations of the UWA Patent Regulations (which required University academics to notify it of inventions, thus allowing the University the opportunity to exercise its rights in relation to an invention) could not be imported into Dr. Gray's employment contract because UWA had failed to maintain the patent committee that was an essential part of UWA's obligations under the regulations. Although not a matter in dispute in the appeal the Full Court also referred to Justice French's finding that even if the patent regulations were in force they could not have validly caused appropriation of property that did not belong to UWA; only by express contractual terms could intellectual property rights be acquired.

Leave to appeal this decision to the High Court of Australia has since been refused, so Australian universities and other research institutions should now have grave concerns for their ownership of inventions made by employees not bound by a specific duty to invent within their employment contracts or where assignments of intellectual property rights have not been made. However, a more fundamental question remains—can a researcher realistically be bound by a duty to invent? While inventions may reasonably be expected to arise from research, it does not necessarily follow that researchers can be expected to make inventions, or does it in these days of increased need by researchers and universities generally to attract commercial backing?

Joint Ownership of Patents

Joint ownership, where two or more parties have equal undivided shares in the invention and patent, can arise in a variety of different ways:

- By having two or more inventor owners;
- By having two or more inventors, one or each of whom is obliged to assign to a different party; or

- By having a single owner who assigns rights in the invention or patent such that there are two or more joint owners.

The general rule of joint ownership, in the absence of an agreement to the contrary, is that each owner can work or exploit the patented invention, by making, using, selling, etc., without the consent of the other joint owner or owners and without sharing any profit from the exploitation. However, no joint owner is free to assign, pledge or mortgage, or licence the patent without the consent of all of the other joint owners. The general rule of joint ownership applies in Europe (Germany and the UK), Japan, Korea and Australia, but not China and the United States of America.

This general rule of not being able to assign, mortgage or even licence jointly owned patents in the majority of countries without the consent of all of the joint owners can present great difficulties for the owners if one of them does not wish to provide the consent, and usually joint ownership of patents is to be avoided. This is particularly true for academic institutions such as universities that are not able to exploit an invention themselves and puts the other joint owner in a very strong position. Looked at the other way, it can put the academic institution in a very weak position if the other joint owner is not exploiting the invention to the desired degree or even if the invention is being exploited satisfactorily but there is no agreement with the joint owner to adequately share profits from the exploitation.

An important issue is that a second or subsequent inventor who has made the smallest contribution to an invention acquires an equal undivided share in the invention and resulting patent with the primary inventor or inventors. If the joint inventorship in these circumstances is going to result in joint ownership, it may be worthwhile filing two patent applications—one covering the primary invention and without the joint ownership, and another jointly owned and covering the contribution of that second or subsequent inventor. Alternatively, and preferably in all circumstances, a written agreement should clearly set out each owner's rights in the invention and patent.

Exceptions

Under the new patent law enacted in China in 2009, Article 15 provides that in the absence of an agreement to the contrary, each joint owner may exploit the patent or grant a non-exclusive licence to a third party but with resulting licence fees being shared by all of the joint owners. On the other hand,

the consent of all of the joint owners is required for an exclusive licence or assignment.

In the United States of America, any joint owner of a patent, no matter how small the part interest or the contribution to the invention, may make, use, offer for sale and sell and import the invention for their own profit, and may assign or licence the interest or part of it, all without regard to the other owners unless there is an agreement to the contrary. This ability of one owner to licence or assign a United States of America patent without the consent of each other owner is a potential trap for overseas joint owners who may have entered in to the joint ownership believing that their consent would be required wherever one of the joint owners wished to licence or assign rights. Absent an agreement to the contrary, it can result in a third party playing the joint owners off against each other to get the best possible deal.

Another problematic scenario is where a minor contributor to the invention, X, gets equal undivided rights in the invention and patent with each other contributor. A third party, Y, who wants to exploit the invention or who may already be exploiting it, can avoid infringement by persuading X, who perhaps only contributed the subject matter of claim 53, to licence or even assign rights in the entire invention. An attorney needs to make sure any client that is a major contributor to the invention does not face this consequence by covering the client's position with a good agreement fully setting out the rights and obligations of the joint owners.

An Australian patent can only be granted to a person who is an inventor or to someone who acquires the right to the patent from an inventor, for example by employment in the circumstances discussed above or by assignment. Unfortunately, as currently worded, the Australian *Patents Act* 1990 (Cth) does not contain any provisions for correcting the register when a patent has been granted to a party who is not an inventor and has not acquired entitlement to the patent from an inventor.

It is not uncommon to file a patent application with broad claims and then to narrow them down, or change the direction of them totally (based on the disclosure in the application). This is not usually a problem for the entitlement to the patent, but it can be if there are joint owners in the original invention and the contribution of one of those owners is exclud-

ed from the claims. If each joint owner only derives its entitlement to be granted the patent from one or more respective inventors, for example if owner A derives its entitlement only from inventors one and two and owner B derives its entitlement from inventors three and four, and the contribution of inventors three and four is excluded from the claims, owner B no longer has entitlement to be granted the patent. This is something that patent attorneys in Australia look out for in jointly owned patent applications, and they recommend dealing with the issue prior to grant of the patent; either by deleting owner B and inventors three and four from the application or by ensuring that owner B has an assignment of rights in the contribution of inventors one and two, either directly from those inventors or from owner A. It is important to deal with it before grant of the patent, because after grant it is too late and cannot be fixed.

This is exactly the problem that the patentees faced in *Conor Medsystems, Inc v University of British Columbia and Angiotech Inc* [2006] FCAFC 154. The University of British Columbia (UBC) derived rights to invention claimed in the application as filed through two inventors and Angiotech claimed its rights through four other inventors. There were no cross assignments between the inventors and/or owners. During prosecution the contribution of the UBC inventors was excluded from the claims, but the patent nevertheless proceeded to grant with UBC and Angiotech as joint owners. The court found that because UBC had no entitlement to be granted the patent, the entire patent was therefore bad, and because that could not be corrected after grant, the patent was revoked.

Conclusion

In conclusion, it is important for advisors to ensure their employer clients have good employment contracts clearly spelling out the requirements of employees and the ownership of inventions made by them and to try to dissuade clients from entering into joint ownership arrangements for their inventions. If they do, they will require agreements that clearly spell out all the rights and obligations (including that there can be no assigning or licensing without consent, but that consent must not be unreasonably withheld), and, at least for Australian patents, ensuring that at the time of grant all of the joint owners have clear entitlement to be granted the patent. ■