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# INVENTION IS THE MOTHER OF LITIGATION

*Employee ownership of trade secrets and patentable inventions should be addressed with express agreements.*

**BY JAMES D. VELTROP**

**Intellectual Property**

The core value of many companies, particularly high-tech companies, is not only their intellectual property, but also key employees who walk out the door every night and occasionally do not come back. Many companies recognize this challenge and take protective, often aggressive, measures to protect themselves through employment agreements containing terms such as noncompetition clauses, which are routinely upheld if they are reasonably limited in scope.

Employment agreements also frequently contain clauses requiring the assignment of inventions, which will vest equitable title to intellectual property in the company and which courts will convert into legal title through the imposition of a constructive trust.

When an employee is not under a contractual duty to assign his or her inventions, however, the company could eventually face a former employee claiming joint ownership as well as tremendous uncertainty over its ability to license or assign the intellectual property. Absent an assignment, inventors are owners of their patents under federal law, at least as an initial matter. While patent law and inventorship are exclusively federal issues, duties to assign and other relevant ownership questions are largely matters of state corporate and trade secrets law. By contrast, under federal copyright law, work for hire is the property of the employer.

In Connecticut and most other jurisdictions, however, this law is sparse, dated and arguably ill-suited to the modern workplace. State courts in most jurisdictions rely extensively upon early federal cases, including *United States v. Dubilier Condenser Corp.*, a 1933 decision by the U.S. Supreme Court, and the U.S. Court of Appeals for the 4th Circuit's 1933 decision in *St. Louis & O'Fallon Coal Co. v. Dinwiddie*. In the absence of a specific agreement, an employee is generally not under a duty to assign inventions to his employer even if the invention relates to his field of employment and the employer's time and resources are used in making the invention. The principle behind this rule is that invention is to be encouraged and that a presumption of employer ownership might stifle an employee's motivation to invent.

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Connecticut law apparently recognizes this general rule but, as discussed below, is very ambiguous as to its scope. In *Transparent Ruler Co. v. C-Thru Ruler Co.* (1942), the Connecticut Supreme Court suggested that the employer could not claim ownership of an employee's invention unless (a) the work was within the scope of his or her duties or (b) the employee occupied a particular relationship of trust and confidence. Although the former exception, which was stated in dicta, would appear to be one that swallows the rule, the court's reliance on the more limited latter exception suggests that the former exception is more limited in nature, consistent with the law in other jurisdictions.

Before addressing the exceptions, however, three important qualifications must be made. First, the general rule does not apply to employer trade secrets that were not the invention of the employee. Thus, an employee inventor might not be able to practice his or her invention outside the company if it requires the use of confidential information acquired by the employee in the course of his employment.

Second, patentable subject matter might be the joint invention of another employee who has assigned his or her rights to the company, or who is at least under an express obligation to do so. Under these circumstances, the company will own a full and undivided interest in the intellectual property. Upon issuance of a valid patent,the company will have the right to exclude others from the use, manufacture and sale of infringing products, with the exception of the non-assigning inventor, as well as to grant licenses under the patent. The non-assigning joint inventor will have those rights as well. Thus, the interest at stake for a joint owner company is one of exclusivity of ownership.

**In Connecticut,** the law regarding duties to assign and other ownership questions is sparse, dated and ill-suited to the modern workplace.

The third qualification is that the use of company resources, such as inventing on company time or using company equipment, would entitle the company to a "shop right" in the invention, as set forth in by the U.S. Supreme Court in *McClurg v. Kingsland* (1843).A shop right is a non-exclusive,non-transferable, royalty-free license to practice the invention. Thus, in addition to exclusivity, the interest at stake for a company with

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only a shop right is its ability to license the invention.

### Exceptions to the Rule

The exceptions to the rule of employee ownership apply under certain circumstances, and would result in sole company ownership. One exception would apply when an employee is clearly hired to invent or to solve a particular problem,e.g.,a product development engineer or a scientist in a research department. Sales, management or manufacturing responsibilities generally would not be sufficient to give rise to a duty to assign.

Connecticut courts have not ruled on the scope of the hired-to-invent exception. In the *Transparent Ruler* case discussed above, the court stated in dicta that an employer might have a claim on the employee's work if it was "within the line of his duties or perhaps at the time an expense of the employer." The court did not reach this issue, however, because it found a duty to assign based on a more limited interpretation of a second exception. Given this resolution and the breadth of this language, it is unlikely that the court intended to eradicate the general rule and state a test contrary to the law in the vast majority of federal and state courts. It is more likely that the court was referring to the hired-to-invent exception and/or to shop rights.

The second exception applies to certain key officers or directors who, by virtue of their managerial duties, are in a position obligating them to assign inventions to their corporation. The law in this area is similarly mixed. Some courts emphasize the fiduciary duties of officers of corporations not to exploit for themselves a corporate opportunity.

**The common law** regarding employee duties to assign is antiquated and poorly developed.

Other courts appear to apply a fiduciary duty to assign only to officers or other personnel whose managerial role is so important as to qualify them as an "alter ego" of the company. Thus, in *Radiant Energy Corp. v. Roberts-Gordon Inc.* (1996), a New York appellate court ruled that two officers were not under a duty to assign because it had not been shown that they exercised "sufficient control over the management of the corporation or exercised the power of a president or chief executive officer." In *Melin v. United States* (1933), the U.S. Court of Claims stated that a vice president, general manager and shareholder could not be considered the alter ego of the corporation if another person actually ran the business.

Connecticut law appears to adopt the latter interpretation. In *Transparent Ruler Co.*, the court stated that the test was whether the employee occupied such a relation to the corporation that she was its alter ego. In this case,the exception was found to apply to an employee who was solely responsible for administering the corporation's business affairs, even though she did not appear to be an officer.

Finally, some courts have found a duty to assign under a variety of other circumstances. For example, in *Preis v. Eversharp Inc.*, a 1957 case out of the District Court for the Eastern District of New York, an employee was required to assign where he had led the corporation to believe that the invention was a corporate asset. One also could posit the reverse situation, i.e., that a corporation might be precluded from asserting ownership when it leads an employee to believe that he or she is the owner of an invention.

As can be seen, a company that has failed to secure its employees' inventions contractually has several available remedies. It relies on these remedies, however, at its peril. The common law regarding employee duties to assign is antiquated and poorly developed and may fail adequately to take into account the exigencies of the modern workplace, such as the changing nature of employee roles in product development.

Connecticut law on this subject is among the most ambiguous of the 50 states,having seen very little illuminating case law in the last few decades. Employers and employees who do not enter into express employment agreements can be certain of their rights only in the most limited alter ego situations, a situation that calls for some form of legislative clarification. In the meantime, employers are well-advised to secure important intellectual property rights through express agreement, and employees are well-advised to tread carefully when seeking to exploit inventions conceived while employed at another company. ■

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