

Who Owns the Intellectual Property: The Employee or the Employer?

by

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The Intellectual Property

There are a number of different intellectual property regimes, which should be considered in determining ownership of intellectual property in the employer/employee context. Intellectual property can cover a broad range, but the principal areas affecting most employers include trade-marks, copyrights, patents, and industrial designs.

The two most commonly litigated disputes between employees and employers involve:

- a. Inventions and resulting patents; and
- b. Literary or artistic works, which are the subject matter of copyright law.

The parties will certainly be at odds in the event an employee invents or develops a profitable business opportunity and the employer wants to exploit it, if it is unclear that an employee is responsible to develop or create as part of their job description.

A. Inventions and Patents

The Patent Act is silent on who owns an invention and any resulting patent in an employment relationship. Therefore the common law applies. The general rule in Canada is that an employee will own his or her own invention unless there is a contractual duty to transfer the invention to the employer. As discussed below, the key question to determine the absent specific terms in a written agreement is whether the duties or responsibilities assigned to the employee include obligations to invent. If so, the employer is entitled to own the invention, and ownership must be assigned to the employer. Conversely, if the invention has no connection to the employee's employment, in other words outside their express employment duties, the invention will be owned by the employee. Generally, the more senior the employee, or if a fiduciary relationship exists, the employer will own the invention. However, the cases are far from clear-cut and the law is less certain, when the inventor is a mere employee, as opposed to a senior manager.

Several cases illustrate intellectual property disputes as being largely fact driven. In addition, these litigation disputes cost money, by tying up management time and energy that can profitably be deployed elsewhere in the company's business.

The Seanix Case

In *Seanix Technology Inc. v. Ircha*¹, Mr. Justice Macdonald had to decide a case involving an invention created by an employee, and concluded that the employer was the owner of the invention and of the resulting patent, based on the facts of that particular case.

As will be shown below, disputes over the ownership of an invention are principally fact-driven.

Seanix, a technology-based company principally involved in the manufacture of personal computers, motherboards and peripheral hardware, advertised to hire a mechanical engineer and advised prospective candidates that they would be responsible for, among other things, “PC chasses and case designs and development.” The Defendant, a mechanical engineer was hired, and his responsibilities included “PC case and chassis design (plastic, sheet metals etc.)”, and “implementation for various new products and all mechanical analysis, design recommendations, [and] improvements relating to existing and new products.” One of the areas of responsibility for the employee was to liaise with a contractor who had been engaged by the employer for the specific purpose of designing a PC case to accommodate a new motherboard.

The employee was convinced that the sub-contractor’s design would prove unworkable, and in the absence of design facilities at his work place, he worked at home during the latter part of 1995 and developed a swing-out concept which was later included in a case design. The employer determined that the sub-contractor’s design was not going to work, and the employee produced and showed a mock-up of his swing-out design to the employer’s president. The solution was eagerly adopted. The employee then prepared a technical specification summary, and ultimately participated in instructing a patent agent, engaged by the employer, to assist in determining whether there were design features capable of patent protection. Ultimately, a U.S. patent application was

¹ (1998), 78 C.P.R. (3d) 443 (B.C.S.C.)

prepared and issued. The employee was also asked to assign the patent to his employer but he refused.

The Spiroll Corp. Case

In determining that the employer owned the invention and the resulting patent, Macdonald, J. relied on *Spiroll Corp. v. Putti*². The employee in Spiroll Corp. was a mechanical superintendent at his employer's plant, and was responsible for ensuring that the concrete manufacturing machinery operated properly. The employee invented a new type of machine for manufacturing hollow-core concrete slabs. The employee invented a prototype in the carport of his garage and took the prototype to his employer's premises to work on it. He disclosed the fact that he was working on it to his supervisor and to the general manager. He even got some of the employees who worked at the plant to assist him with the work on their own time. The employee told the plant supervisor and a shareholder that the machine he was inventing was better in all respects than the one his employer was using to make concrete slabs and asked his employer if it would be interested in jointly developing the new machine with him. The machine was ultimately very successful and his employer sued him seeking ownership of the invention and the resulting patent.

The Court concluded that certain patents owned by the employee were not held in trust for the employer, even though the inventions were developed while the employer/employee relationship existed, because the work from which the inventions were developed was not part of the employee's normal duties. The Court in *Spiroll* went on to state the principle that where an employee is engaged to innovate and create something new or different in the course of those duties, the invention belongs to the employer. The Court also found there is an implied duty on the employee to transfer an invention to the employer where the invention is the product of the very work the employee is paid to do.

²(1975), 64 D.L.R. (3d) 280 (B.C.S.C.) aff'd (1976), 88 D.L.R. (3d) 761 (B.C.C.A.)

The Comstock Case

In the Seanix case, Mr. Justice Macdonald noted that the Spiroll Corp. decision was applied in Comstock Canada v. Electec Ltd.³, however, he did not adopt the checklist that was developed by Mr. Justice Muldoon in the latter case. In Comstock the employee invented a system to inter-connect light fixtures. The invention enabled light fixtures to be electrically chained together by plugging in connections from one fixture to the next. Mr. Hyde, the employee, claimed the invention as his own, and was at the time employed by Comstock as a manager for the electrical department of its Western Ontario Division. During the course of his employment, but not at the request of his employer, he consulted other employees and used his employer's materials and premises to invent the inter-connecting lighting system. Comstock had already sold fixtures similar to the one invented by Mr. Hyde, the employee. Mr. Justice Muldoon adopted the reasoning in Spiroll Corp. but outlined the list of criteria, which should be considered by a Court in analyzing the employee/employer relationship to determine who owns the invention.⁴ It is interesting to observe that Mr. Justice Macdonald chose not to analyze the employer/employee relationship in the Seanix case using the criteria outlined by Mr. Justice Muldoon, but preferred to rely on the general principle enunciated in Spiroll Corp. Although no reason was given, one could speculate that some judges do not want to be limited by a checklist or formula, and prefer to consider all the evidence presented, before applying general principles.

³(1991), 38 C.P.R. (3d) 29

⁴The eight criteria are as follows:

- (a) Whether the employee was hired for the express purpose of inventing;
- (b) Whether the employee had made the inventions prior to the time he was hired;
- (c) Whether an employer had incentive plans encouraging product development;
- (d) Whether the conduct of the employee, once the invention had been created, suggested ownership was held by the employer;
- (e) Where the invention was the product of a problem the employee was instructed to solve, i.e. whether it was his duty to make inventions;
- (f) Whether the employee's invention arose following his consultation through normal company channels;
- (g) Whether the employee was dealing with confidential information or confidential work;
- (h) Whether it was a term of the servant's employment that he could not use his ideas which he developed to his own advantage.

W. J. Gage Ltd Case

The Seanix case is more analogous in many respects to the result that occurred in W.J. Gage Ltd. v. Sugden⁵. The employee in that case was hired as a textbook salesman. Later his responsibilities changed to editing textbooks. The employee worked on an idea to improve the graph paper for the exercise books at home, and came up with a prototype for the invention which was the subject of the lawsuit. The employer had a written employee policy which basically stated that if an employee thought of a better way to do a job or improve working conditions, he could submit the idea on a suggestion form and cash awards would be given for the suggestion. The company also had an employee manual which stated that any invention or work created by an employee belonged to the employee exclusively, whether or not it was developed with the company's facilities, so long as it was not developed within the ordinary scope of that employee's duties. During the course of his employment as editor of the company's mathematical textbooks, the employee was asked by a supervisor to develop a new type of graph paper to be incorporated into an exercise book sold with the company's math textbooks to help teachers in their lessons. After working on the new graph paper, he got the necessary materials and assistance from other company employees, and got a description of the idea typed and filed under the company's suggestion plan to obtain a cash award. The company took up the suggestion and the appropriate steps were taken to develop, manufacture and market the new product. The resulting sales were substantial and the company filed for a patent application for the invention. The employee claimed an interest in any resulting patent. The Court found that had Mr. Sugden invented the invention before he was asked to do so by his supervisor, he would have been the beneficial owner of the invention. The Court concluded, however, that because he had designed the exercise book at the request of his employer in the ordinary course of his assigned tasks, the employer became the beneficial owner of the invention and of any resulting patent.⁶

⁵(1976), 62 D.L.R. (2d) 671 (Ont. H.C.)

⁶ Another interesting aspect of the *Seanix* case is that during the ensuing litigation, the employer failed to take steps to preserve the priority of the U.S. patent application and make timely applications for patent protection elsewhere in the world. The employee assumed these costs. The Court ordered that as a term of the Defendant's obligation to assign the invention (and all patent rights in connection with it) to the employer, and by way of a set-off of any cost to which the employer was entitled to by virtue of the Court's judgment, the Defendant recovered all costs, expenses and legal fees incurred by him in

What is interesting to note about the Seanix case is that as late as 1995, Seanix, a technology-based company, did not have some form of written agreement in place with its employees assigning all inventions to the employer. Obviously had the company compelled the employees to sign an agreement assigning to it all innovations or inventions developed during the course of employment, whether or not they were specifically asked to develop the product, the litigation could probably have been avoided.

Employers at a minimum should ensure that there is a written employment contract, which clearly sets the following minimum provisions:

1. Specifically describe the employee's development or inventive responsibilities and duties;
2. Ensure the employment agreement states, in clear terms that the developed work or invention will be owned by the employer; and
3. A provision which requires the employee to execute reasonable patent documents and transfer agreements to give effect to employer's ownership.

The lesson that human resource managers and executives alike can draw from the above cases is that employers should enter into comprehensive employment contracts with their employees. The agreement should not only provide for the terms and conditions of employment, but also address such issues as confidentiality and the non-disclosure of trade secrets and other sensitive information. The employment contract should also include assignment provisions of any inventions and resulting patents which were invented during the employee's tenure with the employer. Whether the employer insists on a general provision that all inventions are to be assigned, notwithstanding that these inventions may not be within the scope of the employee's duties, is a choice that individual employers will make, and of course, the bargaining power it would have with the prospective employee must be considered.

connection with maintaining not only the U.S. patent application but all other patent applications in other countries.

B. The Copyright Act

In contrast to inventions and the Patent Act, the Copyright Act specifically addresses who is the owner of works subject to copyright. Copyright ownership, and hence protection, extends not only to ideas but also to the tangible expression of ideas. Under the Copyright Act, works can include computer software programs, business plans, business designs and graphic designs, to name a few.

Section 13(1) of the Copyright Act states that the author of a work is the first owner of the copyright. However, section 13(3) of the Act states that works, made by employees under a “contract of service” in the course of their employment, are owned by the employer.

So two fundamental criteria must exist for the employer to prevail:

1. The work must be authored by an employee, as opposed to an independent contractor or consultant; and
2. The work must be authored in the course of the employee’s employment

It is important to note that many employers use outside contractors or consultants to work with employees in the development of products and services. The ownership rules that apply to employees are different when applied to independent contractors or consultants. In these circumstances, unless there is an agreement to the contrary, the work will be owned by the contractor or consultant, and not the employer. Again, written contracts should be entered into with outside contractors to ensure that if an employer pays for the work, it retains ownership.

The solution of course is to ensure that at the outset of the employment relationship, a contract of employment specifically state that all works developed or created during the employees tenure will be owned and exploited by the employer. This is especially the case if an employer is negotiating with a prospective employee who is bringing development or creative ideas or concepts to the bargaining table. It is best to deal up front with how that employee will be compensated for bringing that new concept or idea

to the employer. If an employee's concept or creative plan is not part of the bargain, an exclusion should be documented. So at a minimum, the employment contract should state that all work created or developed, whether at the employer's premises or at the employee's residence, which falls within the employee's job description, belongs to the employer. The agreement should also contain a specific provision where the employee agrees to sign any further documents to transfer title to the work to the employer and register copyright if necessary.

The agreement should also recognize that an employee's job description or responsibilities might change. An employee may not be initially hired to specifically create or develop works on behalf of the employer. However the agreement should state that in the event that the job description changes, the intellectual property provisions remain constant.

The agreement should also state that all confidential information, not known to the public regarding the employer's business and products remain confidential, and are owned by the employer. Again the agreement should contain language, which requires the employee to transfer confidential information to the employer. This is difficult since some confidential information is not necessarily 'property' in the true sense. So the agreement should specify that the employer retains the right to enforce the confidential nature of the information by civil action. In addition anything that stores confidential information, such as hard copy documents, compact disks, master tapes, printers, or source codes, belongs to the employer.

Conclusion

Whether the employer is dealing with an invention or a computer program, it is critical to have a written and comprehensive employment agreement that will protect the employer's rights in and to the invention or work. There are sound business reasons for doing so, not the least of which is that the employer pays the employee's compensation, in what ever form it may be, whether by salary, or combination of salary and bonus. The employer should therefore own what it paid for. The other compelling reason is business certainty. The last thing a company wants to deal with when they are about to launch a potentially profitable business venture or product is to deal with the litigation from a disgruntled employee. The claim may jeopardize a successful launch to the

product and tie up the company's resource and management time in costly litigation. Thus, intellectual property issues can be avoided by straight forward agreements⁷.

⁷In *Comstock* the court specifically provided that agreements such as these would supercede the common law principles developed by the cases.