BOULDER COUNTY BAR NEWSLETTER

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EMPLOYER RIGHTS TO EMPLOYEE CREATED IP, ARE YOUR CLIENT'S INTERESTS PROTECTED?

By Eric J. Moutz

Intellectual property (IP), whether in the form of trademarks, copyrights, trade secrets or patents, is often one of the most valuable assets a business has. However, when these critical IP assets are developed by employees, either on or off the clock, it is critical to settle firmly who actually controls them. As a general matter, employees retain ownership and control over their inventions, but there are three important exceptions to this rule under Colorado law where: (1) rights to employee inventions are addressed by an express employment contract; (2) an employee is hired to invent the IP in question; and (3) the employee creates IP using employer resources or acquiesces in his or her employer's use of the IP.

The best way to settle ownership rights to employee-created IP is with a well-written employment contract that spells out the obligations and rights of both the employer and its employees.[1] Such a contract may obligate an employee to assign IP rights to his or her employer for little or no compensation beyond the usual salary and benefits. Aside from being readily enforceable, a written employment contract also has the psychological advantage of defining the parties' expectations for IP rights before a conflict arises.

However, even in cases where an express employment contract does not exist or may be unenforceable, an employer may still have a right to IP created by its officers and certain types of employees. The Colorado Court of Appeals has recognized that both corporate officers and employees who are hired to invent may be under a duty to assign IP rights to their employer. In *Hewett v. Samsonite Corp.*, 507 P.2d 1119 (Colo. App. 1973), the Court of Appeals concluded that a patentable invention becomes the property of the employer if the employee was "hired [o]r paid to invent" the IP. The Court of Appeals amplified this decision in *Scott System, Inc. v. Scott*:

"If an employee's job duties include the responsibility for inventing or for solving a particular problem that requires invention, any invention created by that employee during the performance of those responsibilities belongs to the employer. Hence, such an employee is bound to assign to the employer all rights to the invention. This is so because, under these circumstances, the employee has produced only that which he was employed to produce, and the courts will find an implied contract obligation to assign any rights to the employer."[1]

Similarly, an employee who has a broad fiduciary responsibility to his or her employer may be impliedly obligated to turn over any IP rights he or

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she acquires that relate to the company's business. In *Scott System*, the Court of Appeals found that a corporate officer has a "fiduciary duty" to the corporation's shareholders that "obligates" him or her "to assign a patent to the corporation if the invention was developed while he or she was employed by the corporation and it is related to the corporation's business."[2]

The principal limitation on these decisions is that the IP must relate to the invention the employee was hired to create or the problem he or she was hired to solve (in the case of ordinary employees) or the business of the corporation (in the case of officers). Neither *Hewett v. Samsonite* nor *Scott System* implies that an employee must assign any IP they create, no matter how unrelated to the scope of their job duties. Therefore, an employee who is not contractually obligated to assign IP rights to his or her invention, is not an officer of his employer and was not hired to invent generally retains ownership of any and all IP that he or she creates under Colorado law.

However, even when an employee retains formal title to IP, an employer may still be able to obtain limited right to use that invention through the shop right doctrine. A "shop right" is an employer's generally nontransferable,[3] nonexclusive, royalty-free right to use an invention developed by its employee on the job or with employer resources.[4] A shop right does not grant an employer an ownership interest in an employee's invention or resulting patent, but merely operates as an affirmative defense to employee claims of infringement on their IP rights.

Courts and commentators generally recognize the existence of shop rights in two situations, where: (1) an employee acquiesces in his employer's use of an invention or actively encourages his employer to use an invention; and (2) an employer subsidizes an invention by allowing the employee to invent it during normal working hours or by using the employer's, materials, tools or other resources, including aid from other employees.[5]

The scope of the implied license created by the shop right doctrine depends on the circumstances under which it arose.[6] Historically the shop right was limited to the particular device that the employee invented or allowed the employer to use.[7] However, the law now appears to be that an employer may "duplicate an invention as often as he may find occasion to employ similar appliances in his business."[8] Still, an employer may not put an invention to entirely new use; for example, by commercializing an invention that it has used only by the employer in its own facilities.[9] As summarized by Chisum on Patents:

"Shop rights must be limited by the particular nature and scope of the usage that gave rise to the shop right in the first place. Thus, for example, if an employee invents a new tool that the employer puts to use but does not sell, the employer should be privileged to use the tool and replacements therefore

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but not to manufacture tools for sale. Further, the shop right should not extend to a new line of business nor to a new use of the invention undertaken after the inventor has terminated employment or otherwise made it clear that he/she does not acquiesce in the employer's use."[10]

Given the current state of the law in Colorado, an employer who wishes to secure rights to IP created by his or her employees could follow a three pronged strategy: (1) ensure that all employees execute a written employment agreement requiring them to assign the rights to any IP that they invent to the employer; (2) ensure that the job duties of all employees whose duties could involve invention or problem solving are contemporaneously documented; and (3) monitor and document employee use of employer resources in creative or inventive endeavors while encouraging employees to put their inventions to use in the workplace whenever it is anticipated that they might be useful or profitable. Conversely, employees who wish to retain the rights to their IP should be aware of these strategies and take steps to ensure that their conduct does not require them to transfer valuable IP rights to their employer without proper compensation.

Footnotes:

1. Scott System, Inc. v. Scott, 996 P.2d 775,778 (Colo. App. 2000) (citations omitted).

2.996 P.2d 775, citing Lacy v. Rotating Productions Systems, Inc., 961 P.2d 1144, 1146 (Colo. App. 1998) (president of corporation had fiduciary duty to assign patentable invention to corporation where invention was developed "for the benefit of" the corporation and invention was "manufactured and designed at [corporation's] expense").

3. Shop rights are generally not transferable except in connection with the "sale and continuation of the entire business to which a shop right originally attached" "merger into a larger corporation" or "incorporation of a business." Donald S. Chisum, 8 Chisum on Patents, § 22.03[3][c] (compiling authorities).

4. Richard A. Lord, 19 Williston on Contracts, § 54:20 (4th ed. 1992); Restatement (First) of Agency, § 397 (1933) (comment b).

5. See Hewett, 507 P.2d at 1121; Scott, 996 P.2d at 778. See also McElmurry v. Arkansas Power & Light Co., 995 F.2d 1576, 1581 (Fed. Cir. 1993) (summarizing cases dealing with shop rights and concluding such rights could arise in either of the two circumstances described above). See also Schroeder v. Tracor, Inc., 217 F.3d 859 (Table) (Fed. Cir. 1999) (recognizing shop right where employee consented to employer's use of invention).

6. See, e.g. Tin Decorating Co. of Baltimore v. Metal Package Corporation, 29 F.2d 1006, 1008 (D.C.N.Y. 1928); Flannery Bolt Co. v. Flannery, 86 F.2d 43, 44 (3rd Cir. 1936) ("the scope of a shop right must be determined by the nature of the employer's business, the character of the invention involved, the circumstances which created it and the relation, conduct, and intention of the parties.").

7. Donald S. Chisum, 8 Chisum on Patents, § 22.03[3][e] (summarizing cases).

8. United States v. Dubilier Condenser Corp., 289 U.S. 178, 187-89 (1933). See also McElmurry v. Arkansas Power & Light Co., 995 F.2d 1576, 1583-84 (Fed. Cir. 1993) (holding employer could duplicate employee invented device for use in it's business and even have device manufactured by outside contractors). Accord Thompson v. American Tobacco Co., 174 F.2d 773, 778 (4th Cir. 1949); McKinnon Chain Co. v. American Chain Co., 259 F. 873 (M.D.Pa. 1919) 8 Chisum on Patents, § 22.03[3][e]. But see Kierulff v. Metropolitan Stevedore Company, 315 F.2d 839, 845 (9th Cir. 1963) (limiting shop right to machines in use before patent was granted).

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9. See Donald S. Chisum, 8 Chisum on Patents, § 22.03[3][e] ("shop rights must be limited by the particular nature and scope of the usage that gave rise to the shop right in the first place");. Francklyn v. Guilford Packing Co., 695 F.2d 1158, 1160 (9th Cir. 1983) (third party could not lease device from employer with shop right and so circumvent obligation to pay royalties to employee inventor).

10. 8 Chisum on Patents § 22.03[3][e].

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do it a couple times) nor any "streaming" CLE's. I think the ability to tap into our programs from your office, especially for those not in Boulder, would be a great service to our members.

Nothing creepy or bizarre happened. I guess I could make something up, just to add some zip, but I wasn't stalked or yelled at. Nor did I stalk or yell at anyone.

Overall it was a successful year and I had fun. We as a board were good stewards of your organization, and we also did some new and different things. I know I said I wasn't going to mention names, but as that paragraph is a fair distance from this one, I'll state that nothing would have happened without a good bar staff. Christine and Lynne are fantastic and inspiring. They really do care about seeing things done right.

Well, that's it for me. I now get to join the ranks of other "past presidents". I'm not exactly sure what past presidents do. I'm hoping we get to fight crime. If that's not the case I'll still stay active with the bar, as long as I'm wanted. Thank you for a wonderful year.