Invention pacts: between the lines

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Glossed over at hiring time, mandatory assignment agreements usually favor the employer. But sometimes they can be negotiated.

When a computer company in the Santa Clara Valley hired Susan Hansen, a software specialist, her employer gave her a stack of papers to sign, including a form pre-invention assignment agreement. This document would commit her to assign to the company all inventions she would make during her employment, *whether or not they relate to the company business.* Ms Hansen had no objection to assigning her inventions to her employer that were related to her duties because she realized that she had been hired to solve problems; that is, to "invent." What raised her ire was the all-inclusive language of the agreement. As she put it to her supervisor and to the personnel officer, "The agreement even covers my cake recipes!" Having convinced her supervisor that the agreement in its original form was unacceptable, the words "whether or not" were deleted before she signed.

This scenario is perhaps less common than it might be, simply because many prospective technical employees do not realize the meaning and potential effect of the fine print in the so-called patent or invention disclosure and assignment agreement that they are expected to sign when they start with a new employer. As a result, patent agreements are frequently sources of misunderstanding, ill feelings, and even litigation between employees and employers. Generally, such misunderstandings and disputes arise out of situations about which reasonable people can differ.

Consider for example the reported case of *Thermo Electron Engineering Corp vs. Lyczko*. Thermo Electron objected when engineer Jean Lyczko refused to sign over a number of patent applications related to combustion. Mr Lyczko had made his inventions in the course of work related to the employer's basic research efforts but felt those inventions fell outside the agreement he had signed, which recognized as employer property only those inventions or discoveries that "related to or arose out of the business, research, or investigation" of the employer. Consequently, he felt justified in wanting to develop a product line outside the employer's umbrella.

Thermo Electron, however, sued to compel execution of the patent assignment. The trial that followed took many issues into account: the terms of the agreement as related to the nature of the employer's research effort; the natural expansion of employer research into commercial products; the amount of the employee's responsibility; and the way in which the inventions were made, including the use of employer facilities and the expense of invention development. In the end, the employer won.

Litigation of this type can be a nightmare for both plaintiff and defendant because proving facts related to these issues is not simple. It is easy to understand why many companies prefer patent agreements that provide them greater protection under the law: Such agreements leave less room for misinterpretation and misunderstandings.

The law

The two examples above highlight troublesome problems that have faced high-technology companies and their individual employees for years. Controversy on this subject arises from divergent views on the role of innovation. Popular among inventors is the view that the individual deserves substantially more credit than he or she generally receives for an innovative contribution to solving a problem. Those in management of the large research institute or corporation often hold that innovation is merely the first step in a complex mechanism to obtain a competitive advantage, a process which requires substantial technical, financial, and marketing support beyond the contribution of the individual innovator.

The innovator, having been hired and paid a steady salary to perform specific tasks and having been given such perks as stock options or subsidized shares, generous and widespread technical and financial support, and a measure of security, is expected to solve problems. Credit for the success—or blame for the failure—of most inventions rests with the entire technical, production, and marketing team and with management, rather than merely with the individual inventor. Nevertheless, the explicit recognition of an individual's contribution may be as important to that individual's prestige and future career development as solving the problem and maintaining a competitive advantage are to the employer.

A typical employee complaint about patent agreements is that the employees must sign them under seemingly coercive circumstances. On the hiring date, the employer usually presents a printed form that requires a signature as a condition of employment, at a time when most prospective employees are already committed to accept the job especially after having terminated their prior employment. Although the forms may be perceived as perfunctory, they attempt to cover every possibility, and they leave the impression that inviolable "standard" conditions are involved.

Further, the personnel officer or whoever represents the employer often leaves the impression that because the agreements are "forms," they are not negotiable and nothing can be done to change them. If the potential employee thinks the form is an administrative matter that the people he or she is dealing with cannot affect or change, the employee is less likely to consult a lawyer about the implications of the agreement's various clauses and may unknowingly become contractually bound by terms that are far more favorable to the employer than to the employee.

Under the current law typical in most states, an employer has a "shop right" in an employee's invention if it is made with the use of the employer's time, facilities, or materials. Although legislation has somewhat modified this right, the shop right persists even if no written agreement exists. A shop right is a nonexclusive, nontransferable, royalty-free right to use someone else's invention if you provided the equipment and facilities used in its creation. In specific situations, however, the principle is often hard to apply.

For example, suppose a person had been hired for the purpose of creating inventions, and then—on his or her own time—creates one that relates to the broad field in which the employer is involved, but not to the particular assignment. Questions arise about obligations to disclose and grant the employer rights in the invention and about who has the right to develop and exploit the work.

The answer generally depends on the scope of the employment contract, which does not have to be a formal written agreement. Informal letters and oral agreements are also enforceable if sufficient evidentiary proof exists. Still, employers prefer written agreements so they can minimize areas of potential dispute and avoid litigation, which often amounts to little more than costly shouting matches between the employer and employee.

The latitude for contractual agreement is truly broad. The law has traditionally presumed that employment contracts are the subject of arm's-length negotiation. However, courts often sympathize with the employee's weaker bargaining position and tend to construe the terms of contracts and written agreements more strictly against the party who prepared the writings; and generally that party is the employer.

An example of an overly broad patent agreement was the subject of a 1934 lawsuit, *Guth vs. Minnesota Mining and Manufacturing Co.* At issue was an agreement on the assignment of inventions that was without limit in either time or scope. The court struck down portions of that agreement on the grounds that such a pact is in conflict with the public policy that encourages invention and discourages keeping people unemployed in their particular areas of expertise.

Such cases are by no means definitive. Two cases in California reaching opposite results illustrate the problems with "holdover" clauses; that is, assignment-agreement clauses requiring an employee to assign inventions made after termination. In one case, *Amoralite Lens Company vs. Campbell* (1972), the court partially struck down a one-year holdover clause because it required a former employee to assign all inventions relating to the former employer's entire field of work. The court found that the clause was an unreasonable restraint of trade under a California statute relating to freedom of employment. However, in *Winston Research vs. Minnesota Mining & Manufacturing Co* (1965), another court held a one-year holdover clause valid and enforceable because it was limited to inventions based on the former employer's secrets or confidential information. As a result of these and similar cases, attorneys are beginning to counsel client companies to avoid invention agreements that are unnecessarily broad and that can result in litigation.

Patents rights survey

Some years ago, a subcommittee of the Santa Clara Valley IEEE Professional Activities Committee (PAC) studied the patent-agreement complaints of employed inventors and conducted a survey of nearby electronics- and technology-oriented institutions that had more than 250 employees. The purpose of the survey was to obtain background information about industry practice in the San Francisco Bay area. The committee sent short questions on incentives, profit sharing, and patent agreements to the chief executives of about 75 institutions. The survey asked whether they had a standard agreement that was required for employment and typical agreements were studied. The survey sought comments about the success of incentive and suggestion programs and about how potential employees were informed about the employer's policies on patents.

The committee received direct responses from chief executives or in-house attorneys of 24 companies. Additionally, it obtained 10 responses from interviews with middle management and with outside attorneys. The committee conducted select follow-up interviews. It compiled a table from agreements the committee obtained directly from the responding institutions and from the outside attorneys who were interviewed. The committee analyzed approximately 50 patent agreements. **Table 1** summarizes the results.

Table 1—Patent-agreement provisions*

Type of provisions	***Frequency***
Re-employment provisions	
Requirement to list prior inventions	16
Requirement to list prior inventions and express recognition of prior commitments	5
Provisions covering period of employment	
Requirement to disclose inventions, whether or not patentable	30
• Related to all inventions during term of employment	6
• Related to past, existing, or contemplated company business made during period of employment	20
• Related only to specific, named areas of endeavor	2
• Related only to work engaged in by employee	1
• Related specifically to all inventions made during working hours	5
• Related specifically to inventions made using company facilities or materials	3
Requirement to assign subject inventions to company and to help company protect and enforce assigned rights	30

Company specifically obligated to pay some or all related expenses	12
Company reserves right to publish	2
Competition with company or moonlighting specifically prohibited	9
Other provisions on outside consultation (for example, permitted by special arrangement)	4
Secrecy commitments	32
Surrender of secret material required upon termination	16
Recitation of criminal penalties for fraudulent appropriation	1
Recognition of company's right to seek court injunction	1
Special awards for assigned inventions	
• Specified by patent agreement	3
• Employer policy (not in agreement)	11
• Provided in exceptional cases	8
• No employee incentive or recognition	7
• Neither employee incentive nor profit sharing	4
• Types of awards:	
Cash	15
Stock or stock option	4
Company-sponsored public recognition	17
Royalty sharing:	
Discretionary in company	1
Fixed by agreement or by published policy	3
Company expressly willing to release rights in inventions unrelated to corporate business or previously assigned to the company	3
• Within a specified time period	1
Express recognition of third-party obligations (for example, government contracts)	2
Postemployment provisions	
Continuing claim by company to work-related inventions:	
• Three months	2
• Six months	8
• One year	1
Miscellaneous provisions of interest	
Express willingness to consider ideas owned by prospective employee	1
Express provision forbidding changes or deletions in agreement	2
Express warning about effect of agreement on employees rights	1

*See text for details

Nine out of 10 companies reported that they required employees to sign a standard patent agreement at hiring, but during the follow-up interviews, it turned out that in “exceptional cases” the usual policies could be changed. Not many people were willing to talk about that, but a few described some possible situations. An employer who needs the services of some individual with unique skills might seriously consider negotiating the patent rights, for example. More typically, the subject comes up as part of the general terms and conditions of employment. Limits on the scope of negotiation come from conditions in the job market and such outside factors as the conditions of government contracts. If the job market is unfavorable to employers, or if the would-be employee is willing to compromise on salary or other benefits to reach accommodation, many employers might willingly consider alternatives to their standard terms.

Employees who attempt to negotiate changes in the standard form in hopes of greater rewards are likely to be disappointed, however. Substantial risks are involved, and the ultimate royalty may be very small in any case.

The survey results in **Table 1** suggest some possible terms used in negotiating. Due to an overlap among categories, the relatively small sample size, and the lack of statistics on the number of people who are subject to each type of agreement, the relative frequency of occurrence for each clause is probably not statistically representative of industry practice.

A glance at the **table**, however, makes it clear that many kinds of disclosure exist, as well as a range of possible rewards. Because employers rarely consider the terms to be negotiable, it is up to the prospective employee to seek information in advance to avoid a shock later.

An ounce of prevention

Job applicants could avoid many problems right at the start if employers tell them they have a right to seek counsel. A caption on the patent agreement itself would be one way to communicate this information:

> NOTICE: BY THIS AGREEMENT YOU ARE AGREEING TO TRANSFER TO THE COMPANY ALL RIGHTS IN CERTAIN INVENTIONS. IF YOU HAVE QUESTIONS ABOUT YOUR RIGHTS, YOU SHOULD SEEK INDEPENDENT LEGAL ADVICE.

If employers do not voluntarily incorporate this caption into form patent agreements, such a notice might be made the subject of legislation.

Help is available to employees, however. An independent attorney who is familiar with patent law can play an important role that benefits both the employer and the employee. A lawyer may, for example, explain problem areas and risks, the role of patents and inventions in product development, and the chances for ending up with any substantial reward. Further, an attorney can help by evaluating each side's strengths and weaknesses, acting as a bargaining agent and suggesting both specific areas for negotiation and possible settlement terms.

How do you choose a suitable attorney familiar with this issue? This question is difficult to answer; you can ask the same question about any specialist or professional. Fortunately, help is available. Almost any public library, law library, or law office has a copy of the *Martindale-Hubbell Law Dictionary* or some similar volume. *Martindale-Hubbell* contains a listing of almost all attorneys in the United States. It lists biographical and specialty information about many attorneys by city, and there is a separate listing of patent attorneys. Look for someone specializing in business, license negotiations, or patents, or for members of licensing societies. You might also try the *Yellow Pages* of the telephone directory or check with the local bar association. Other sources are friends who have worked with such an attorney. You may even ask in-house counsel for a list of referrals.

So-called blanket clauses for invention assignment are generally unnecessary, even if an employer is hiring the employee for the sole purpose of making inventions. In most cases, a secrecy agreement, a disclosure requirement, and common-law shop rights can adequately protect an employer. As for the employee, a clear definition of duties and the scope of the agreement is a protection that helps distinguish between which inventions it covers and which it does not. Previous projects, previous inventions, and trade secrets known prior to employment, as well as inventions made after job termination, should all be excluded.

If the contract includes a secrecy commitment, it is common sense to avoid both perpetual protection of the employer's trade secrets and of any information already in the public domain through no fault of the bound employee. Further, the employee's expertise and education should be well-defined to prevent the employer from claiming, at some point, that the employee's knowledge is a trade secret that he or she learned on the job.

Seeking patent rights

A number of companies with "liberal" policies agree to release rights to inventions in which they have no apparent present or future interest, but a specific obligation to release these rights is seldom made part of a patent agreement. It can be a frustrating situation for an employed engineer should the employer simply fail to respond when he or she asks to get those rights back.

Although the employer's resistance may prevent the inventor from investing a lot of money in an electric fork or some other expensive dead end, most engineers would certainly prefer to be able to develop pet inventions if they so choose. A patent agreement should include a release clause providing a time limit for action by the employer. For example:

> *Within six months after the subject matter of a disclosure that would be adequate for the filing of a proper U.S. Patent application has been either published anywhere or placed on public use or on sale in the United States, or after a period of one year following such disclosure during which the Company has made no active effort to develop or exploit such subject matter, whichever occurs first, the Company shall, at the written request of the employee, advise the employee in writing whether the Company intends to file a patent application on such a disclosure, and if thereupon the Company advises employee that it does not intend to file such United States Patent application or, having advised the employee that it intends to file such Patent application, yet does not file within the first half of the time interval between its first knowledge of publication, public use, or sale and the end of the one-year period following such publication, public use, or sale, then the employee may file a U.S. Patent application, and any corresponding foreign patent applications, at his own expense.*

Another suitable release clause may read:

> *If the Company fails to elect in writing that it desires to prosecute a patent application or intends to commercially exploit any invention or improvement disclosed by the employee within nine (9) months following the complete disclosure thereof to the Company, then all rights of the Company in and to such invention or improvements shall revert to the employee.*

Employers may be reluctant to consider a release clause unless they recognize a benefit in it or unless their interests are clearly protected. For example, an employer may legitimately expect limitations on release clauses to satisfy government-contract requirements, to protect trade secrets, and to guard against conflicts of interest. The employer may also ask for and be legitimately entitled to payment to cover its R&D expenses on the invention to protect investors and stockholders.

On the other hand, employers may be willing to expressly release or otherwise expressly abandon their rights to inventions of no commercial value to them so they can take advantage of tax deductions for losses. In any case, they should justify any decision not to release inventions not involving employer time, facilities, or confidential information available to the employee.

In some instances it may be desirable to define the specific invention areas to include or exclude from the terms of the agreement so both employee and employer can retain rights in areas of continued interest. A general clause for defining the inventions contemplated by a patent agreement might read as follows:

> *INVENTIONS include only those conceived or made by the employee solely or jointly with others during or outside working hours within the term of the employee's employment by the Company, and exclude any invention conceived or made by the employee solely or jointly with others before his employment by the Company, or jointly with others not employed by the Company, or conceived or made after termination of employment with the Company; and that "INVENTIONS" also exclude any invention that does not relate to or is not generally adoptable to promotion of the business of the character now carried on by the Company or any actual planned research development of the Company, or is not suggested by or does not result from any task assigned to or work preformed by the named employee for or in behalf of the Company.*

Patent incentives

Employed inventors are happier with jobs in which they are rewarded for their inventions and are unsatisfied with jobs in which they feel they receive only token recognition. Yet industry has a number of arguments against tying compensation to the commercial worth of a patent.

Consider, for example, the employer's dilemma. If the only ones who are rewarded are the ones whose names are on the patent application, there may be claims that the work was a group effort. If it later comes out that the invention was *not* a group effort, the patent may be found invalid. On the other hand, many people are still unrecognized or unrewarded by the patent system for their own important work—in software development and pure research, to name two areas. Of course, other incentives could be worked out in such areas.

As previously mentioned, another oft-used argument is that the employer hired the employee to produce new ideas and that the employer supported the employee in doing so. To get the rights to his or her work in those circumstances, say some employers, is tantamount to the employee doing his or her own work on employer time or on employer pay. Besides, inventions often are the result of orderly procedure rather than of blinding insight. Following routine procedures under employer direction may result in an invention, but the engineer's actual contribution may be limited, as when the basis for the patent is a particular mixture ratio or range of operating temperatures.

Perhaps the best argument that employers have is a practical one. Marketing and developing new inventions is a high-risk enterprise. Because only about one patent in 50 covers an invention that earns a profit, companies lose most money they spend on invention development. As a result, most engineers do defer to the relative security of a steady job and a corporate benefit package, even though they have to give up all direct rights to the benefits resulting from their genius.

That does not mean, however, that they deserve to be victimized. Simply as a matter of the engineer's own personal worth and self-esteem, to say nothing of personal pride in his or her own ability and competence, there ought to be some recognition. Apart from financial considerations, there is often a "pride of inventorship" involved with receiving even a small continuing royalty. On top of that, successful inventions enhance one's professional prestige and subsequent career development. These are not matters to be taken lightly.

One possible response that considers both the employer and the individual engineer is to offer a choice of compensation and benefits packages. For example, the employee might agree to assign inventions to the employer in exchange for compensation plus a percentage of profits or savings above a certain level. The employer could adjust the base compensation according to this threshold in addition to the level of profit sharing, or instead of it.

The base compensation may vary from a high of no profit/savings sharing to a minimum level at which the employer bases compensation directly on the worker's identifiable contribution. This scheme need not even be tied to the patent system, though it may be. Thus, achievements in areas outside those that the patent system covers can also be recognized as the employer sees fit.

One part of the Santa Clara Valley PAC survey discussed above dealt specifically with incentives. Most of the companies that replied demonstrated an active interest in either invention incentives or some form of profit sharing for employees. More than 90% had one program or the other, and 25% had both.

One out of four respondents expressed negative or neutral feelings about the success of the incentive-type programs. The remaining 75% reported results that ranged from moderate to "unusually successful." One company said that the incentives promoted lower turnover, but another said that "professionals" had no need for formalized incentives. Another survey respondent claimed that incentive programs produced an effect that was the opposite of what they were designed for, because they were too hard to administer fairly.

Types of incentive

The range of incentive programs is interesting. One part of **Table 1** shows the frequency of various types of incentives. One small company, for example, offers a package of stock options and an interest in a special profit-sharing fund that rewards investors in cash. This scheme is in addition to the profit-sharing plan that the employer offers to all employees. A senior executive who is familiar with employee performance administers the incentive program on an informal basis. Many other companies offer cash bonuses for exceptional ideas—sometimes formally, sometimes not.

Incentive programs can be well-thought-out and extend far beyond the patent system to recognize both technical and nontechnical achievements beyond expected levels of performance. Companies may also provide support in the form of assistance to obtain publication or other professional recognition. Such recognition not only makes the engineer happy but also provides the by-product of added publicity for the employer. Other incentives sometimes focus on the role of education in the productivity of technical employees. As a result, benefit packages frequently include tuition reimbursement and scholarships for continuing education. Some companies may even offer sabbaticals and time off with pay for selected employees.

Occasionally a company, recognizing the value of an invention that one or more workers of its workers made, has been persuaded to provide additional financial and technical support outside the ordinary business operation. Certainly, anyone who starts a spin-off business with both the blessing and the technical and financial assistance of his former employer is in one of the best possible positions for success. One company well-known for past practice of this sort is Arthur D Little Inc of Cambridge, MA, and there are others.

Royalty agreements

Several research-and-development organizations, both large and small, provide some form of established royalty-sharing arrangement with regular employees or contract researchers. In addition, exceptional employees have negotiated royalty-sharing provisions on an individual basis as part of employment agreements. Typically, the people who have been able to do this have special expertise are senior employees or company founders and major stockholders. Here is an example of such a royalty agreement:

If the Company decides to sell any of the employee's conceptions, inventions, improvements, or copyrightable or copyrighted material, whether in the form of confidential information, patent, patent application, or copyright for actual money consideration, the Company agrees to give the employee a percentage of any actual money that the Company may collect from the aggregate of all such sales or licenses, after deduction of expenses to which the Company may be put in connection with such licenses or sales and taxes that the Company may have to pay on such collections, according to the following scale:

Of the first___________dollars actually collected, zero.
Of the next____________dollars actually collected,______percent.
Of any further sums actually collected,________percent.

One problem with royalty-sharing incentives lies in the complexity of determining how much an invention is worth and how much of a contribution the individual employee made. Other problems are the complexities of cross-licensing arrangements, which often make it difficult to assign a value to an invention and result even more often in the production of little or no royalty income.

Recent cases

The last major changes to the inventor's rights law in California occurred in 1986 and 1991, when the legislature slightly modified the 1978 addition to the California Labor Code of Sections 2870-2872. The Labor Code now provides:

2870. (a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

2871. No employer shall require a provision made void and unenforceable by Section 2870 as a condition of employment or continued employment. Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided that any such disclosures be received in confidence, of all of the employee's inventions made solely or jointly with others during the term of his or her employment, a review process by the employer to determine such issues as may arise, and for full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

2872. If an employment agreement entered into after January 1, 1980, contains a provision requiring the employee to assign or offer to assign any of his or her rights in any invention to his or her employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention which qualifies fully under the provisions of Section 2870. In any suit or action arising thereunder, the burden of proof shall be on the employee claiming the benefits of its provisions.

Although this statute defines the relationship between employer and employee and ensures that the employee has notice of his or her rights, it clearly favors the protection of the employer's actual and contemplated investment.

Interpretations of the California statute are instructive. The Cubic case, cited with favor in later cases, is an example. This was a case in which the court upheld the rights of an employer against a background of a prior government-contract requirement that the employer require that employees assign rights to the employer so that the employer would be free to transfer its rights to the government.

Employer Cubic Corp filed an action against a former employee, Marty, seeking declaration of ownership of a patent that was reduced to practice by Marty while he was an employee of Cubic. Cubic alleged breach of an invention agreement. The Superior Court judgment ruled in favor of Cubic, as did the State Court of Appeals.

In December 1976, Cubic hired Marty, who signed an agreement that provided:

To promptly disclose to Company all ideas, processes, inventions, improvements, developments, and discoveries coming within the scope of Company's business or related to Company's produced or to any research, design experimental or production work carried on by the Company, or to any problems specifically assigned to Employee, conceived alone or with others during the employment, and whether or not conceived during regular working hours. All such ideas, processes, trademarks, inventions, improvements, developments, and discoveries shall be the sole and exclusive property of the Company, and Employee assigns and hereby agrees to assign his entire right, title and interest in and to the same to Company.

The agreement further provided that the employee was to cooperate in obtaining a patent on any inventions and would not disclose any of Cubic's secret inventions or processes and would not remove any Cubic records, files, drawings, documents, or equipment from Cubic without prior written consent. Under the agreement, Cubic promised to pay all expenses in connection with obtaining a patent. Cubic would pay the employee a $75 cash bonus upon execution of the employee's patent application and another $75 if the employee obtained the patent, which was moderately generous by the standards of the day.

In May 1977, Marty came up with an idea for an electronic warfare simulator. The simulator was an improvement on what was used at the time. Marty made a block diagram in May and by June 1977 wrote a paper describing his invention. Marty provided this work to a supervisor at Cubic, representing that it could be of value in a Cubic product, ACMR (air combat maneuvering range). Cubic had plans to add a product such as Marty's invention but had not begun the project before Marty's disclosure.

Two Cubic employees reviewed Marty's work and made comments on the work. (Marty claimed at trial that the comments added nothing to his work.) Cubic funded an internal project to study the invention. Cubic assigned Marty an assistant to help design the necessary circuitry. (Marty's background in microprocessors was weak.)

Cubic submitted a proposal to the U.S. Navy Department for Marty's invention under the name of one of the reviewers, who then told Marty that if Cubic got a contract from the Navy, the company would make Marty the program manager. The Navy in fact did award Cubic a contract to develop Marty's project, and Marty was made program manager, with a more than average raise.

In 1978, Marty, without telling Cubic, applied for a patent, which soon issued. Marty's patent attorney sent a copy of the patent to Cubic with an offer to license the patent to them. The people at Cubic told Marty that they felt that the company owned the patent and offered to pay Marty for the costs of the patent prosecution. Cubic said that Marty's continued employment at Cubic was contingent upon his assigning his rights to the patent per his assignment agreement at hiring. Marty refused. Cubic terminated his employment in early 1980.

Cubic sued to obtain specific performance of transfer of the patent rights under California contract law. The California Superior Court granted Cubic a summary judgment. The California Court of Appeals affirmed it (*Cubic Corp v. Marty*, 185 Cal. App. 3d 438 (1986)). The court upheld the agreement of assignment under contract-law principles and under Labor Code 2870. Marty had defended on the theory that the contract was unenforceable as a contract of adhesion and that it violated Labor Code 2870. Marty had maintained that specific performance was not warranted. The trial court found that the $150 bonus was not token consideration. Moreover, Cubic had given Marty a substantial raise based upon his invention and had made him a program manager. The assignment agreement was a condition of employment, which Marty freely signed. Nevertheless, the court held that the contract was one of adhesion since Cubic did not allow new employees a right to negotiate. The agreement was a take-it-or-leave-it condition of employment.

However, an adhesion contract is enforceable if the court finds it not unduly oppressive or unconscionable. Evidence was presented that this type of contract is required on an industrywide basis because the US government required that defense contractors such as Cubic had to be prepared to give title or license in any patents "conceived or reduced to practice during the course of performance of government contracts." As to Labor Code 2870, the court found that the release provisions did not apply to Marty because he conceived and reduced to practice his invention during employment by Cubic using Cubic resources. Thus, Marty was working under a valid employment agreement. However, the Court did state that under Labor Code 2870 agreements "which purport to apply to such an invention [that is not made during employment, or within the scope of the employer's actual or demonstrably anticipated business] is to that extent against the public policy of the state and is to that extent void and unenforceable." However, it is the employee who bears the burden of establishing that an invention comes within Section 2870.

Cubic Corp v. Marty is quoted freely up to the present time as the law of California. The following recent cases have cited Cubic for authority:

Pomona College v. Superior Court, 53 Cal.Rptr. 662,669, 45 Cal.App. 4th 1716, 1727
Cuscinetti v. Beaner Precision Products (1996 WL 743801) N.D. Cal. Dec. 23, 1996 (NO. CIV., 95-20684-SW)
In re Woodham, 174 B.R. 346, 349 (Bankr. M.D. Fla. Oct. 27, 1994 (NO. 93-4190-BKC-3P3)
In re Romano, 174 B.R. 342, 345, 32 Collier Bankr. Cas.2d 398 (Bankr. M.D. Fla. Oct. 27, 1994)

Based upon Cubic's holding, an inventor would need independent counsel to truly negotiate a contract that differs from the default position stated in the statute. Once such a contract is signed, the courts uphold its terms unless the court finds the to be unconscionable or oppressive. Proving a contract is unconscionable could present a real problem for the inventor employee. The fact that the employee has accepted the employment after reading the preinvention assignment contract would suggest that the employer and employee had an opportunity to negotiate. Most of the literature on adhesion contracts, such as insurance policies, suggests that, although the preinvention assignment contract is presented as a take-it-or-leave-it basis, adhesion-contract acceptance creates a presumption of mutual agreement by the parties.

Although most jurisdictions recognize a shop right, a recent Federal Circuit case, *Teets v. Chromolloy Gas Turbine Corp*, 83 F.3d 403 (Fed.Cir. 1996), limited a Florida employee's reservation against a shop right in which the employer had taken steps to secure patent rights. In that case, no preinvention contract existed, but the employee was subject to an "implied-in-fact" contract of transfer of invention ownership. The Federal Circuit Court held that, where an employee is assigned a task, is paid a salary, the company pays for the patent prosecution, and the employee is paid to improve the invention, the employer owns the invention by an "implied-in-fact" contract.

Is there hope?
From time to time over the last 35 years, the US Congress has considered legislation that would shift the "balance of power" somewhat on ownership rights. None of the legislation has passed. Congress has typically left employment matters that do not directly affect Constitutional rights to the state legislatures, which in turn have left it to the marketplace to sort out rights between employers and employees. In times of high demand for technical employees, the employees have a better chance of obtaining more favorable terms of employment, including retention of rights to inventions. More typically, those invention rights go to those who paid for the research and the development and who are in the business of exploiting the rights. Inventor employees seldom have the resources or the motivation to exploit inventions.

The Netherlands, Italy, Austria, Switzerland, Japan, Sweden, and Germany have all adopted systems for allocating employment-derived inventions, with varying degrees of success. However, widespread organized financial and political support for rights of employed inventors in their employment related inventions has never existed in the United States. So long as that trend continues, legislative modifications are not expected to be forthcoming. Nevertheless, under the U.S. economic model that protects innovation through federal patent and copyright laws and state trade secret laws, the economy has experienced unparalleled success in promoting and commercializing innovation, and many employees who have invested time and money in their own successful companies have benefited from the fruits of their innovative labors. Similarly, those who have invested time and money in their own unsuccessful companies have lost fortunes. You can make strong arguments for reforming the tax system and tightening enforcement of reporting requirements to ensure fairness, but few of those reforms would have an impact on the prospect of directly and proportionately rewarding inventive contributions.

Needs
Employers are generally open to suggestions that improve job satisfaction and promote productivity. From a legal viewpoint, it is up to the employee to show the employer how both parties will benefit from a liberalized invention agreement—and to negotiate for it. Still, the prospective employee generally is poorly informed in this area. Out of courtesy, at least, the employer should let the employee know what intellectual-property rights it expects to reserve for itself and what the employer will expect or require the employee to give up.

Finally, the best advice for the employee is to be cautious. He or she may wish to consider seeking independent legal counsel. In any case, he or she should be wary of standard form agreements that companies allegedly require as a condition of employment. The prospective employee should not underestimate his or her bargaining position, nor assume that such agreements are standardized and non-negotiable.

Areas of negotiation that this article suggests include rights to inventions made outside the normal duties of the employee, inventions in which the employer has no apparent commercial interest, release provisions, and royalty-sharing arrangements. Employees need to carefully weigh advantages and disadvantages. As one famous legal decision says, the law does not favor "a mortgage on a man's brains for all time."

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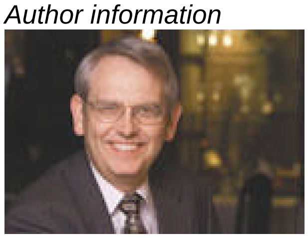

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