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Lifting the Veil of Secrecy 18-Month Publication of Patent Applications In the U.S. under the AIPA

Stephen Lesavich holds a Ph.D. in computer science and is a partner at Chicago's McDonnell Bohenen Hulbert & Berghoff, where he specializes in high-tech intellectual property issues. He can be reached via e-mail at lesavichmbhb.com. In this article, he discusses the new 18-month patent publication rule that took effect Nov. 29 as a result of the Domestic Publication of Foreign Filed Patent Applications Act of 1999. **P. 3.**

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Douglas A. Miro and Marc A. Lieberstein are partners of Ostrolenk, Faber, Gerb & Soffen, LLP, in New York. Mr. Miro specializes in patent litigation and prosecution in a wide variety of arts, including Internet technologies, medical devices, steel-making, ceramics and refractories. Mr. Lieberstein focuses on intellectual property litigation involving domain names, commercial disputes, unfair competition and other aspects of e-commerce. In this article they discuss legal issues surrounding the ownership of inventions created by independent contractors. **P. 6.**

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Who Owns the Invention, You or the Person You Hired?

By Douglas A. Miro and Marc A. Lieberstein

Douglas A. Miro and Marc A. Lieberstein are partners of Ostrolenk, Faber, Gerb & Soffen, LLP, in New York. Mr. Miro specializes in patent litigation and prosecution in a wide variety of arts, including Internet technologies, medical devices, steel-making, ceramics and refractories. Mr. Lieberstein focuses on intellectual property litigation involving domain names, commercial disputes, unfair competition and other aspects of e-commerce. In this article they discuss legal issues surrounding the ownership of inventions created by independent contractors.

M. Ployer Inc. contracted with IND Contractor Co. to assist in developing a New Product. This New Product will enable M. Ployer to surpass all of its competitors in the industry. M. Ployer and IND meet, discuss ideas, problems and goals and the development project begins. During the course of the project, IND comes up with M. Ployer's great New Product, and M. Ployer discovers that the New Product comprises a patentable invention. Unfortunately M. Ployer did not take its attorney's advice, and the contract with IND does not contain a provision for who owns the rights to any inventions or patents in the New Product.

This scenario commonly occurs in commercial settings because the parties do not foresee that future disputes may arise as to the ownership of any inventions, ideas or patentable technology that may be developed during the course of a relationship. Under the circumstances described above, does the employer/hiring company (M. Ployer) have the right to use the New Product developed by IND, an independent contractor (IND)? Can M. Ployer preclude IND from competing against M. Ployer and from selling the New Product to competitors of M. Ployer? Does M. Ployer have an ownership interest in any and all patent rights that may be obtained or that have already been obtained in the New Product?

It should initially be noted that no case law was found which specifically addresses these questions in the employer/independent contractor setting. Nevertheless, analogous case law enables the authors to surmise that the short answer to all these questions is yes, probably and possibly.

For purposes of this discussion, the authors will assume that M. Ployer contracted for and assigned IND to manufacture and develop the New Product, and that M. Ployer agreed to pay IND monetary compensation as consideration for it to develop the New Product.

The Right to Use

Let's first consider M. Ployer's right to use the invention developed by IND. Under the scenario described above, M. Ployer would likely be entitled to a non-exclusive royalty-free right to use the invention. This is usually characterized as a "shop right." The shop right concept has been applied in terms of an equitable license to use another's patented invention in the independent contractor/employer relationship such as the one between IND and M. Ployer.[1]

The state of the law concerning shop right was discussed by the Federal Circuit in *McElmurry v. Arkanas Power and Light Co.*[2] A shop right has been defined as a right created at common law, when the circumstances demand it, under principles of equity and fairness. The shop right entitles an employer to use, without charge, an invention patented by one or more of its employees without liability for infringement.[3] The Federal Circuit infringers. If a patent application is published, the applicant is entitled to a reasonable royalty for damages for infringement for a period between the date of publication of the application and the date the patent is granted. These new provisional patent rights apply provided that: (1) actual notice of the published patent application is given to an alleged infringer; and (2) the claims in the published application are "substantially identical" to the claims in the issued patent. However, treble damages are not available for these provisional patent rights.

AIPA Impact on Patent Practice, Licensing and Litigation

The AIPA significantly changes patent practice in the United States. If a patentability search is conducted, the search should now include published patent applications. Since an application may be republished multiple times, the search must be conducted to include the potential for multiple republications with multiple sets of claims.

The AIPA also involves making a number of strategic patent practice decisions such as deciding to publish at all, deciding to voluntarily publish or publish early, deciding on the range of claims to initially publish and decisions relating to republishing applications with amended or canceled claims. The need to maintain secrecy or to file continuation applications at a later time must also be balanced against the possible desire to create prior art documents to use against a competitor or to take advantage of the new provisional rights to use against potential infringers.

The new rules under the AIPA make risk evaluation and management for licensing and litigation more difficult. An organization may be approached by a competitor and asked to take a license at a lower royalty rate based on claims in a published patent application before it issues into a patent. However, the organization may have a hard time evaluating the risk involved with a licensing request, since the number and scope of claims in the issued patent may be totally different (*e.g.*, canceled or narrowed claims) than and not substantially similar to the claims in the published patent application.

An organization may also be approached by a competitor with a notice of a published application and a claim of alleged infringement to invoke the AIPA provisional patent rights. The organization may have a hard time evaluating the litigation risk associated with provisional patent rights based on the claims in the published patent application. For example, what does the term "substantially similar" mean now, and what will it come to mean after a few patent cases are litigated? Are the claims in a published patent application substantially similar to the claims in the issued patent if they differ by a few words? How about if they differ by one or two claim elements or one or two claims features? Years of arguments over these issues are sure to follow.

The *Festo* Decision and the AIPA

Coincidentally, on Nov. 29, 2000, the U.S. Court of Appeals for the Federal Circuit handed down a decision in *Festo Corp. v Shoketsu Kinzoku Kogyo Kabsuhiki Co.*, No. 95-1066 (Fed. Cir., Nov. 29, 2000) (*en banc*). The court took the case *en banc* to resolve specific issues related to the doctrine of equivalents that remained unanswered by the U.S. Supreme Court decision in the patent case *Warner Jenkins Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 137 Ed. 2d 146, 117 S. Ct. 1040 (1997). (***Editor's Note:*** *see* e-Patent LR, *December 2000, P. 3, for coverage of the* Festo *decision.*)

In general, *Festo* held that if a patent claim is narrowed for any reason that relates to the statutory requirement of a patent (*e.g.*, 35 U.S.C. §§ 101, 102, 103 and most likely including § 112), prosecution history estoppel arises. There is no range of equivalents for the narrowed claim element and application of the doctrine of equivalents for any narrowed claim element is completely barred. *Festo* at *25. Virtually every issued patent includes one or more narrowed claim elements that could be affected by the *Festo* decision, since normal patent practice has always included an iterative process of narrowing claims during the examination process. Most narrowing claim amendments were made for the patentability reasons discussed in *Festo*.

The dissent in the *Festo* decision has argued that the *Festo* holding provides a road map for potential patent infringers. Anyone seeking to lawfully copy a patented technology need only: (1) read the prosecution history to identify narrowing claim amendments made for patentability reasons; and (2) copy every other claim element exactly, and substitute any known interchangeable structure, matter or step for any claim element that has been narrowed. Any minor change, to even one narrowed element, should be sufficient to avoid liability for infringement. *Festo* at *180.

in *McElmurry* found that "the proper methodology for determining whether an employer has acquired a 'shop right' in a patented invention is to look at the totality of circumstances on a case-by-case basis and determine whether the facts of a particular case demand, under principles of equity and fairness, a finding that a "shop right" exists."[4]

Factors that courts should look at are the "circumstances surrounding the development of the patented invention and the inventor's activities respecting that invention, once developed, to determine whether equity and fairness demand that the employer be allowed to use that invention in his business."[5] The *McElmurry* court reviewed the Supreme Court "shop right" cases and found that the shop right definition in *United States v. Dubilier*[6] was the most appropriate for determining whether a shop right exists. In *Dubilier*, the Supreme Court stated:

> Where a servant, during his hours of employment, working with his master's materials and appliances, conceives and perfects an invention for which he obtains a patent, he must accord his master a nonexclusive right to practice the invention.... Since the servant uses his master's time, facilities and materials to obtain 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.

In *McElmurry*, the employer, AP&L, hired Harold L. Bowman as a consultant to assist in the installation, maintenance and operation of a level detector at AP&L's facility. Bowman worked with AP&L's employees to redesign and develop a newly redesigned level detector to detect the level of fly ash. Bowman assisted AP&L's employees to install and develop the level detectors at AP&L's facilities. Ultimately, Bowman obtained a patent for the new level detector which he developed at AP&L's facilities and at AP&L's expense. The Federal Circuit found that AP&L had acquired a shop right in the patented level detector developed by Bowman at its facilities.

Similar to the IND/M. Ployer situation, Bowman developed a patented level detector while working for AP&L (the employer) and suggested it to AP&L as an alternative to the old level detectors. Indeed, Bowman had consented to and participated at least in part in the installation of the level detector at various AP&L facilities. Bowman also never asserted that AP&L was precluded from using the level detector without its permission or that AP&L was required to compensate him for its use. The record suggested that Bowman actually believed quite the opposite.

Here, in our hypothetical, the circumstances surrounding the creation of the contract/project between M. Ployer and IND indicate that M. Ployer specifically hired IND to develop the New Product which comprises the alleged patentable invention. The New Product was to be made exclusively for M. Ployer's use in order to make M. Ployer a dominant force in the relevant industry. M. Ployer specifically paid IND to develop the New Product. Following the rationale of *McElmurry*, M. Ployer should own at least a shop right.

From *McElmurry*, we learn that another factor to consider is whether the independent contractor unequivocally consented to, and acquiesced in, the hiring company's exclusive rights to use the New Product for the hiring company's benefit. If IND, like Bowman in *McElmurry*, never expressed any opposition to M. Ployer's right to use the New Product, and the facts indicate that it was IND's understanding that it was assigned to design and manufacture the New Product exclusively for M. Ployer's use, and M. Ployer paid due consideration for IND's services, a court would likely find the existence of an implied license or shop right in favor of M. Ployer.[7]

Accordingly, based on the law set forth in *McElmurry* and *Dubilier*, M. Ployer would own an equitable license or shop right in any patents or inventions derived from the New Product developed pursuant to the Project.

The Right to Prevent Unlawful Competition

The mere existence of the M. Ployer/IND relationship may be sufficient for M. Ployer to prevent IND from competing against M. Ployer in the marketplace for the New Product. As more fully discussed below, M. Ployer may bring a claim for breach of confidential relationship, independently of any shop right or trade secret claims against IND.[8] The existence of a confidential relationship alone may be enough to prohibit disclosure of the information exchanged or developed during the course of the relationship and prevent IND from competing against M. Ployer.[9]

The *Kamin v. Kuhnau* case, decided in the Oregon Supreme Court, is most instructive here. In *Kamin*, the plaintiff, Kamin, employed an independent contractor to furnish labor and materials required to construct a garbage truck body which embodied improvements invented by Kamin. Kamin asserted that the improvements were trade secrets communicated to the defendant, Kuhnau, in the course of a confidential relationship. Kamin had made arrangements with Kuhnau to use Kuhnau's company's machine shop and employees to assist Kamin in his experimental work and in developing the ideas for the garbage body improvements.

Initially, Kuhnau supplied the garbage trucks embodying the improvements to fulfill Kamin's purchase orders. But later Kuhnau informed Kamin that he was going to start manufacturing truck bodies in competition with Kamin. The question before the *Kamin* court, like the one in our situation, was "whether the disclosure to the defendant Kuhnau [the independent contractor] of [Kamin's] design for a garbage packer unit was made under such circumstances as to raise an implication of a promise by [defendant] Kuhnau not to appropriate the design to his own use."[10]

The *Kamin* court found that the garbage truck bodies designed by Kamin with the assistance of Kuhnau were not available on the market and that Kamin's improvements to the garbage truck body were preferable to customers in the market. Indeed, Kamin received a patent covering some of the features of his garbage truck unit. The issuance of the patent, while not conclusive to establish novelty, does support the claim of novelty unless the defendant could rebut the presumption.

But the *Kamin* court noted that a plaintiff need not establish novelty to make out a case of unfair competition, *i.e.*, breach of confidential relationship, implied-in-fact obligations, or fiduciary duty. The only question is whether the idea disclosed had "such value that it may reasonably imply that the disclosee [IND here] is not privileged to use it for his own profit."[11]

> The fact that the idea was already developed by others at the time of disclosure may make it less valuable in the market. Yet the information or knowledge may give to the possessor a commercial advantage over his competitors. This advantage constitutes a value, and the disclosure of the information which creates the advantage may be sufficient to raise the implied agreement not to appropriate it.

A similar case to *Kamin* was decided by the Second Circuit in *Franke v. Wiltschek.* In *Franke*, the question was not whether the disclosee could have obtained the disclosed information elsewhere, but rather whether in fact "he did so obtain it."[12] In finding that the defendants breached the confidence and trust imposed on them, the *Franke* court stated, "It matters not that defendants could obtain their knowledge from a study of the expired patent and plaintiff's publicly marketed product. The fact is that they did not. Instead they gained it from plaintiffs via their confidential relationship, and in so doing incurred a duty not to use it to plaintiff's detriment." A similar rationale has been utilized in the trade secret area to prevent the inevitable disclosure of confidential information by former employees/contractors.[13]

This same principle was also applied by the Seventh Circuit in *Smith v. Dravo.*[14] There, the plaintiff disclosed a design for a steel freight container to the defendant, a prospective purchaser of plaintiff's business. Later, however, the defendant began to manufacture and sell a container of similar design in competition with plaintiff. The defendants asserted that the design was ascertainable from the containers which plaintiff had already sold. But the court held that the information of plaintiff's design acquired by defendant was not subject to appropriation by the defendant because "the mere fact that such lawful acquisition is available does not mean that [the defendant] may, through a breach of confidence, gain the information in useable form and escape the efforts of inspection and analysis."[15]

In light of *Franke* and *Smith*, the *Kamin* court found that "it is not necessary to show that the defendant expressly agreed not to use the plaintiff's information; the agreement may be implied. And the implication may be made not simply as a product of the quest for the intention of the parties but as a legal conclusion recognizing the need for ethical practices in the commercial world" [footnotes omitted].[16]

Similar to the relationship between IND and M. Ployer, the relationship between Kamin and Kuhnau was such that an obligation not to appropriate the disclosed improvements could be implied. Kuhnau, like IND, was paid to assist Kamin in the development of the latter's idea. Kuhnau, like IND, knew that Kamin, like M. Ployer was attempting to design a new product to gain a competitive edge in the market. Certainly Kamin, like M. Ployer, would not contemplate that as soon as the new design was perfected the hired hand would have the benefit of Kamin's/M. Ployer's ideas and the perfection of the new design through painstaking and expensive experimentation. It has been recognized in the cases that a manufacturer who has been employed to develop his ideas is not entitled to appropriate those ideas for his own use.[17] Kuhnau was permanently enjoined from competing with Kamin in the manufacture and sale of the garbage truck bodies which utilize the ideas and inventions acquired by Kuhnau in the course of his confidential relationship with Kamin.[18] In the author's opinion, IND should be so enjoined.

The courts of New York have followed this line of reasoning. In *Franke*, the plaintiffs alleged that the defendants misappropriated their trade secrets which were learned during, and in consequence of, a confidential relationship existing between them. The plaintiffs had begun experiments to manufacture compressed cotton bath sponges. The defendants, having seen the product in a store, called the plaintiffs and represented that defendants were willing to sell the item for the plaintiffs. Later the defendants terminated the agreement but had "resolved to copy the product and market it for their own profit."

The *Franke* court found that because the defendants obtained their secret information by virtue of their confidential relationship with the plaintiff, they would be held accountable for their own use to their own advantage at the expense of the plaintiffs. The *Franke* court noted that the essence of plaintiff's claim was not infringement but "breach of faith."[19] Because the defendants gained their knowledge of the product from plaintiffs via their confidential relationship they incurred a duty not to use it to plaintiff's detriment.[20]

While the *Franke* decision could be distinguished from our situation because it involved trade secrets, another New York decision was rendered in *Rodgard Corp. v. Miner*, where the plaintiffs had assisted in providing information to the defendants to develop what ultimately became a patented invention for a particular material used for compression springs. The district court specifically noted that "it is the misappropriation of the information that was allegedly disclosed in confidence upon which the courts look disfavorably, and such is not entirely dependent on the novelty or secretness of the information learned through the confidential relationship.[21] The district court stated:

> An individual can be liable if the product or process disclosed to him in confidence is not a trade secret, if he took advantage of the confidential relationship and obtained knowledge of the product or process through such relationship without himself having to expend the money or time to develop the process or to learn of it independently by reference to that which is already in the public domain via an expired patent, a marketed good or some other type of public information [citations omitted].[22]

Thus, even if the ideas and information IND obtained from M. Ployer to develop the New Product were not a trade secret *per se*, IND would likely be obligated to maintain the confidence instilled upon it by M. Ployer and not to misappropriate the idea and information to M. Ployer's detriment. If the information was obtained by improper means, *e.g.*, breach of a confidential relationship, it is irrelevant that similar designs or processes have been patented or that information could have been discovered by lawful means. In this regard, the courts have found that if the plaintiffs failed to show the process was a trade secret, plaintiffs' claim would not be lost if they could show that the defendants learned of the process through the confidential relationship and thereafter breached the agreement by disclosing the process through the filing and subsequent publication of a patent.[23]

Thus, where as here, IND would not have learned of the New Product idea or information "but for" the very transaction and/or confidential relationship it had with M. Ployer, a duty to maintain the confidential relationship and not use the information to the detriment of M. Ployer may be incurred and any use or disclosure to the contrary may be enjoined.[24]

Cases Finding No Unfair Competition in the Employer/Employee Relationship

Notwithstanding the above analysis, there are cases finding no unfair competition in circumstances analogous to those in the present scenario between IND and M. Ployer, because the invention was well known and was developed independently by the former employee/independent contractor before he worked for the employer.

In *E. V. Prentice Dryer Co. v. Northwest Dryer Co.*,[25] the plaintiff was a manufacturer and seller of plywood veneer dryers. The plaintiff sued the defendants based on the theory that the defendants, through the conduct of plaintiff's former employee, wrongfully appropriated various ideas with respect to the design and manufacture of veneer dryers developed by the plaintiff. The theory utilized was an unfair competition cause of action.

The plaintiff's former employee was its chief engineer. The former employee had developed certain improvements in plaintiff's veneer dryers that were not used by plaintiff's competitors. Later, however, the former employee resigned from plaintiff and formed his own competing company and began to manufacture and sell dryers that were similar to the plaintiff's and in direct competition with plaintiff.

The Oregon Supreme Court found that defendants' conduct did not constitute unfair competition. The court noted that the innovative design claimed by the plaintiff was not a trade secret and that *the innovations were well known* by others engaged in the manufacture or use of veneer dryers. There was also evidence which supported defendants' contention that the improvements in the plaintiff's dryer were solely and principally the product of the former employee's creative effort based on knowledge that the former employee had prior to his employment with plaintiff. Plaintiff did not disclose any information to the former employee in order for him to design the innovations for the new dryer, and, therefore, none of the information was regarded as confidential in nature.

Further, and this was a fact noted by the court twice in its opinion, "There was nothing in terms of [the former employee's] contract of employment or in the nature of his work from which it could be implied that he was not to use for his own purposes features which he himself designed."[26] It was based on these facts that the court found that the former employee could use the information that he learned during the course of his employment and that his use of the information did not constitute unfair competition.

It should be noted that the court distinguished its case from the *Kamin* decision discussed above based on the fact that the improvements in the new dryer were the product of the *former* employee's creative effort. Thus, as between IND and M. Ployer, it would be important to show that M. Ployer disclosed the idea of designing a New Product to IND, and also that M. Ployer provided information to, and/or collaborated with, IND during the course of its relationship with IND to develop a New Product.

The *Prentice* dryer case can also be distinguished from the IND/M. Ployer situation because (1) the innovations in *Prentice* were well known, and (2) there was nothing in the relationship between the plaintiff and the former employee in *Prentice* from which an inference could be gleaned that the former employee knew he was not to use what he learned during the course of his employment. To the contrary, as between IND and M. Ployer, the New Product was novel, and IND knew that the development of the New Product was exclusively being conducted on behalf of M. Ployer, for M. Ployer's sole use. Therefore, unlike the former employee in *Prentice Dryer*, IND would probably have an obligation not to use the information and invention developed during the course of the confidential exclusive relationship between IND and M. Ployer, to the detriment of M. Ployer.

The Patent Ownership Dispute: Who Owns It?

The facts, as set forth above, may also indicate that IND was essentially hired, like an employee is hired, for the specific purpose of making the New Product. If so, who would own the invention? Upon considering this question, one prominent attorney has noted that:

> A unifying principle is whether the invention has any generic application outside the specific use for which the invention was made in the project. An invention that has no use outside the scope of the project, was created, at least inferentially, within the scope of the employment on that project. A new design, for example, that applies only to a new apparatus created in the course of a specific project suggests that the design is a direct result of the consultant's assignment to the project. Should that same design, however, have general application, say to golf clubs, outside the project, then this inference would favor ownership by the inventor, subject to a possible shop-right to the employer.[27]

Supreme Court decisions provide ample support for this observation and have held that when one is hired for the specific purpose of accomplishing a prescribed result, and an invention is derived in the course of performance, then the invention belongs to the employer even though the terms of employment contract contain no express provision dealing with the ownership of whatever inventions may be developed.[28]

> If the employer contemplates the discovery of an invention and enters into a contract with another to endeavor to make the invention for the benefit of the employer and the contract, construed in light of the attending circumstances, shows that the employee must have reasonably understood that such inventions as

resulted from his performance under the contract should belong to the employer, then the employee is under an implied obligation to assign any patents acquired by him for said inventions to his employer.[29]

In *Liggett Group Inc. v. Sunas*,[30] the court states mere employment alone "does not endow an employer with exclusive ownership rights to an invention, even though the invention may occur during working hours." Nevertheless, even "absent contrary agreement, the employer owns an invention if: (1) the employee is 'hired to invent, accomplish a prescribed result, or aid in the development of products,' or (2) the employee is set to experimenting with the view of making an invention and accepts payment for such work."[31]

The *Standard Parts v. Peck* case is the closest case on point to the instant matter. In *Standard Parts*, the employee was contracted, very much like IND here, to solve a problem for the company that hired it. The contract in *Standard Parts*, like the general contract between M. Ployer and IND, called for the independent contractor/employee to "devote his time to the development of a process of machinery" for a stated compensation. The question for the Supreme Court was: Who owned the resulting invention made pursuant to the contract? The court found the answer "inevitable and resistless" that the one who engaged the contracted employee for his services and paid for them owned the invention resulting from such an engagement.[32]

In *National Development v. Gray*, even though the employee was not expressly employed as an inventor, he was hired, like IND was here, for the specific purpose of developing and perfecting the plaintiff's machine. Under such circumstances, the employee in *National Development* had an implied obligation to assign the patent to the plaintiff.

Although no case could be found that directly addressed the issues as applied to M. Ployer and IND (an employer and independent contractor), the authors are of the opinion that as between M. Ployer and IND, a similar finding could be had whereby IND should have at least an implied obligation to assign any patents or inventions deriving from the development of the New Product to M. Ployer.[33]

Facts which would establish such an implied obligation include whether: (1) IND knew the New Product invention belonged to M. Ployer and understood that its contract/employment for M. Ployer was for the purpose of developing the New Product exclusively for M. Ployer; (2) IND took any action whatsoever to assert ownership of the New Product invention during the course of the Project or not until after M. Ployer filed the patent applications for the invention; (3) IND ever consulted with its own attorney to file a patent for "its" alleged idea; (4) IND ever claimed that it "owned" the New Product or that it wanted any additional compensation, and whether such claims were made before or after it assisted M. Ployer's attorneys to prepare and file the patent application; and (5) IND acquiesced in, and agreed to, letting M. Ployer pay for the filing and preparation of the patent application for the New Product. In the absence of a contract or specific provision concerning ownership of the invention, the courts consider the aforementioned facts important in determining whether both the employer and the inventor understood that the employer was entitled to own any inventions the employee might make.[34]

Mention should also be made of the seminal *Cahill v. Regan* case decided in New York, wherein the employee was the manager of the employer's business, and on his own initiative made an invention that was acceptable to the employer's customer. The *Cahill* court held that under these facts there was no implied obligation to assign the patent to the employer because the law does not require it.[35] The employee in *Cahill* was a mere manager, and could not have been employed to invent absent an express agreement to that effect.

In this regard, however, if under the particular independent contractor/employer relationship the precise subject of the employment contract involves "solving a defined problem" or to "evolve a process or mechanism for meeting a specific need" then the employer would have rights in any invention derived from that contract.[36] In one case, the contract entered between the consultant and the employer did not specifically refer to a specific project or assignment, and hence, no assignment of the "trade secret" was required.[37]

As between M. Ployer and IND the assignment was quite specific to develop a New Product, and the contract reflects that the fruits of the project were exclusively for M. Ployer. Further, IND accepted payment to design the New Product and acquiesced in M. Ployer's payment therefor. If IND assisted in the preparation and filing of the patent applications on the New Product, without ever stating that it owned any rights, an argument could be made that the invention for the New Product belongs to M. Ployer.

The Flipside of the Ownership Dispute

Without a doubt, IND may argue that no invention was ever contemplated by the parties, and that while M. Ployer may have a non-exclusive right to use the invention, the absence of any terms in the contract reflects no agreement, express or implied, that IND should assign all rights to any invention made during the course of the Project. IND will likely assert that as per the contract, it was not responsible for inventing the New Product. IND could then argue that the Project could not have comprised a general or specific assignment to IND to invent, and that any such assignment was outside the scope of employment for M. Ployer. Accordingly, IND could argue that any invention would belong to it.

There are several cases which may support IND 's position. Those cases, however, are distinguishable from the present M. Ployer/IND relationship on the ground that in each one the employment was described by the court as "general" in scope, *i.e.*, the employee was not hired for a specific purpose or assignment.[38]

A particular case of interest, which has never been relied upon to any great extent, is the *Aetna-Standard v. Rowland* case. In *Aetna*, the employee was hired, similar to IND here, as an engineer. The employee was instructed to develop a "plug mill receiving table" pursuant to a customer contract. After completion of the table, the Aetna employee signed a disclosure statement as a joint inventor and helped to prepare the patent application and drawings. Later the employee was laid off and the employer sought an assignment of the invention from him. They had already received an assignment from the other joint inventor.

The Pennsylvania Supreme Court held that ownership of the invention remained in the employee. The court focused on the absence of any agreement to the contrary and refused to find an implied agreement to assign because the employee was only "hired as a general staff engineer; he was not recruited specifically to design the [invention]."[39]

The holding in *Aetna* should be easily overcome if it can be shown that the parties' ongoing relationship reflected an understanding that the scope of the project entailed solving a problem to develop a new product or process. For example, while the initial scope of a project may only generally deal with designing a new product or machine, one may be able to show that the scope of the project changed as the parties were collaborating on the development of a prototype design of the new product.[40] Over the course of time, a project's scope may evolve to specifically encompass not only the requested items, but also new ideas or processes which may solve the problem in a more efficient manner, even though the idea or process was not contemplated at the time the contract was entered into.

Here, if it can be shown that IND proposed its new ideas specifically for M. Ployer's New Product to solve the problem called for by the contract, it is likely that any invention arising from such a proposal would be owned by M. Ployer. At the time of the proposal, IND became specifically employed and paid to incorporate the new idea as part and parcel of fulfilling the terms of the contract on behalf of M. Ployer.[41]

Based on the foregoing, M. Ployer would have an argument for asserting that it should own the patent rights in the New Product, and IND should be required to assign its rights in any patents or inventions to M. Ployer.[42]

Conclusion

So, who owns the invention? Obviously, there are many factors to consider, but the overriding and predominant answer, in the words of the Supreme Court, is that:

> [i]f one is employed to devise ... a means for accomplishing a prescribed result, he cannot, after successfully accomplishing the work for which he was employed, plead title thereto as against his employer. That which he has been employed and paid to accomplish becomes, when accomplished, the property of his employer. Whatever rights as an individual he may have had in and to his inventive powers, and that which they are able to accomplish, he has sold in advance to his employer.[43]

After *Teets* and *McElmurry*, employers are in a better position to assert ownership or rights to use of use inventions made by those in their employ. And if a confidential relationship can be established, an employer should rightfully be permitted to preclude his hired hand from using that which developed during the course of the relationship to the employer's detriment.

Notes

[1] *See McElmurry v. Arkansas Power and Light Co*, 995 F.2d 1576, 1582-83 (Fed. Cir. 1993); *Francklyn v. Guilford Packing Co.*, 695 F.2d 1158, 1161 (9th Cir. 1983); *Kurt H. Volk Inc. v. Foundation For Christian Living* 534 F. Supp. 1059, 1083-84 (S.D.N.Y. 1982) (characterizing the shop right as an equitable license); *Lukens Steel Co. v. American Locomotive Co*, 197 F.2d 939, 940-41 (2d Cir. 1952).

[2] It should be noted that prior to *McElmurry* some courts limited the shop right to the employer-employee relationship. *See Hobbs v. United States*, 376 F.2d 488 (5th Cir. 1967)(the government tried to extend the shop right concept to an independent contractor [inventor] hired by the government's contractor; the government could not assert a shop right because [1] the independent contractor refused to sign the contracts presented him to assign any inventions and made his refusal known to all throughout, and [2] equity did not extend the shop right doctrine to this type of relationship).

[3] *McElmurry*, 995 F.2d at 1580.

[4] *McElmurry*, 995 F.2d at 1580-81.

[5] *McElmurry*, 995 F.2d at 1582.

[6] *United States v. Dubilier Condenser Corp*, 289 U.S. 178, 188-189 (1933).

[7] *See McElmurry*, 995 F.2d at 1582-83.

[8] *E.I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917).

[9] *See Bakers Aid v. Hussmann Foodservice Co*, 730 F. Supp. 1209, 1215 (E.D.N.Y. 1990) (discussion of New York law on "conversion" which is defined as "any unauthorized exercise of dominion or control over property by one who is not the owner of the property which interferes with and is in defiance of a superior possessory right of another in the property"); *Rodgard Corp. v. Miner Enters. Inc.*, 12 U.S.P.Q.2d 1353, 1360 (W.D.N.Y. 1989); *Franke v. Wiltschek*, 209 F.2d 493, 495 (2d Cir. 1953); *Kamin v. Kuhnau*, 374 P.2d 912, 920 (Or. 1962); *see also Ivy Mar Co. Inc. v. C.R. Seasons Ltd.*, 907 F. Supp. 547, 560 (E.D.N.Y. 1995) (discussing a cause of action of a breach of fiduciary duty; "even where a former employee has not signed a non-competition agreement and does not use misappropriated trade secrets, he or she may be enjoined from soliciting the former employer's customers where he or she has obtained customer information by wrongful means, such as theft or intentional memorization"); *Schreyer v. Casco Prods. Corp.*, 97 F. Supp. 159, 168-169 (D. Conn.), *aff'd in part, rev'd in part* (on other grounds), 190 F.2d 921 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952). It should be noted that the breach-of-confidential-relationship claim, breach-of-implied-in-fact-contract claim and breach-of-fiduciary-duty claim are essentially the same in that if one is established usually the other can be established as well. Courts (see *Bakers Aid*) have been known to group them together under the "unfair competition" umbrella.

[10] *Kamin*, 374 P.2d at 920.

[11] *See Kamin*, 374 P.2d at 916 (*citing Schreyer*, 97 F. Supp. at 168) ("[T]he fact remains, however, that the defendants took unwarranted advantage of the confidence which the Schreyers reposed in them and obtained the desired knowledge without the expenditure of money, effort and ingenuity which the experimental analysis of the model on the market would have required. Such an advantage obtained through breach of confidence is morally reprehensible and a proper subject for legal redress."); *see also A.O. Smith Corp. v. Petroleum Iron Works*, 73 F.2d 531 (6th Cir. 1934).

[12] *Franke*, 209 F.2d at 495.

[13] *PepsiCo. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995); *Lumex Inc. v. Highsmith*, 919 F. Supp. 624 (E.D.N.Y. 1996); *Doubleclick Inc. v. Henderson*, 1997 N.Y. Misc. Lexis 577 (N.Y. Sup. Ct. 1997); and *Electro Optical Indus. v. White*, 26 Cal. App. 4th 653 (1999).

[14] *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953).

[15] *Smith*, 203 F.2d at 375.

[16] *Kamin*, 374 P.2d at 919.

[17] *Kamin*, 374 P.2d at 919 (citations omitted).

[18] *Id.*

[19] *Franke*, 209 F.2d at 495.

[20] *Id.* (the Second Circuit affirmed the district court's injunction and ordered an accounting of any profits that defendant received); *see also* "inevitable disclosure" cases cited in note 13.

[21] *Rodgard*, 12 U.S.P.Q.2d at 1360 (*citing Speedry Chem. Prods. Inc. v. Carter's Ink Co.*, 306 F.2d 328, 332 (2d Cir. 1962); *Franke*, 209 F.2d 493).

[22] *Rodgard* at 1360.

[23] *Rodgard*, 12 U.S.P.Q.2d at 1360 (the court, however, found that the exact contours of the relationship and the exact nature of the information disclosed and made public to the detriment of the plaintiffs involved intricate issues of fact that could not be resolved on a motion for summary judgment).

[24] *Rodgard*, 12 U.S.P.Q.2d at 1360; *Smith*, 203 F.2d at 377; *see also Prescott v. Morton Int'l Inc.*, 19 U.S.P.Q.2d 1766, 1770 (D. Mass. 1990) (*citing E.A. Farnsworth, Contracts* § 3.10 at 124 [1982]) (custom in the industry regarding engineering firms and their use of proprietary statements prevented unauthorized use; the court found that a genuine issue of material fact existed as to whether the parties' conduct would lead a reasonable person in the industry to infer that the defendants promised not to use the information in the design plans without authorization).