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A DISCUSSION OF ONE PHASE OF THE PATENT LAW DEALING WITH RELATIONSHIP OF EMPLOYER AND EMPLOYEE IN PATENT MATTERS

By ALBERT R. TEARE*

A question of frequent importance to the general law practitioner, is the legal effect of the relation of employer and employee concerning inventions made by the employee during his employment. The question of ownership of inventions as well as patents which may be granted on such inventions usually arises after the inventions have been made. This is particularly noticeable where the employer furnishes the material and equipment necessary to develop the invention. Different phases of the relationship arise: In cases wherein the employer conceives the invention and hires the employee to carry out the general plan; in cases wherein the employee is under a contract of general employment and the invention made by the employee is merely incidental thereto; and in cases wherein the employee is hired to devise specific improvements or devices for a stipulated consideration.

Concerning the first relationship, that is, where the employee is hired merely to carry out the invention of the employer, it may be stated generally that where the employer has conceived the plan of the invention and is engaged in experiments to perfect it, then no suggestions from the employee not amounting to a new method of arrangement, which in itself is a complete invention, is sufficient to deprive the employer of the exclusive right in the effected improvement; but where the suggestions go to make up a complete and perfected machine embracing the substance of all that is embodied in the patent subsequently issued to the party to whom the suggestions were made, the patent is invalid because the invention and discovery belong to another. (*Agarwal Woolen Company vs. Jordan & Wall* 583.)

In the second case, that is under contracts of general employment where the employee is engaged to devote general services but the inventions so made are merely incidental to his employment, and are developed upon the time and at the expense of the employer, then the employer has a mere license (non exclusive and non

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transferable), while the invention and patent belong generally to the employee (*Hapgood vs. Hewitt* 119 U. S. 266). But where there is an express contract appearing with sufficient certainty and reasonably limited to the subject matter, giving such inventions and patents to the employer, it is valid and will be specifically enforced. (*Mississippi Co. v. Franzen* 143 Fed. 501).

This discussion, however, is directed toward the third case and is intended to set forth the existing law which defines the rights of the employer and employee, where the employee is under a contract of employment, in which contract no provision is made for assignment of patents, which may be obtained on inventions developed during the course and within the scope of employment.

The question for determination then is, whether or not the patent shall belong to the employer even though there is an absence of an express stipulation to that effect. In this connection, the recently reported case of *Peck v. Standard Parts Company* 282 Fed. 443, opinion by Judge Denison is of prime importance.

Briefly, the facts in this case are that the Hess Pontiac Spring and Axle Company was engaged in manufacturing springs for the Ford automobile, and desired automatic machinery for the manufacture of the front spring. Accordingly, a written contract was entered into with a machine designer, William J. Peck. The body of the contract set forth a consideration for services together with a bonus for completion of the machinery at or within the expiration of a certain time. The machinery was completed and compensation paid. Later, the Pontiac Company was taken over by the Standard Parts Company, whereupon Peck attempted to obtain a satisfactory general contract with both the Pontiac and Standard Parts Company. During such negotiations, a patent for one of the machines was obtained by Peck. Subsequently, negotiations for the contract failed and thereupon Peck brought action for infringement. The defendant answered, relying wholly upon its rights under the contract by virtue of which it claimed an equitable right to the patent in suit, whereupon the answer proceeded in the nature of a cross bill asking for a decree that the plaintiff be compelled to convey the legal title to the patent. The District Court sustained the defendant's position and made a decree directing that the patent be conveyed to the defendant. Upon appeal, the case was reversed.

The facts stated in the above case involved a contract to devise a specific product in the course of employment. The Court, upon consideration of the evidence stated the general rule of license above referred to and then stated that the question for determination was whether or not there should be an exception to the rule in cases of specific employment wherein there is an absence of any stipulation or understanding that the patent should belong to the employer. In other words, where under contracts of general employment, the patent belongs to the employee, while the employer obtains merely a license, does it follow as a matter of law that the patent belongs to the employer where the employee is hired to devise one specific improvement?

To determine the reasonableness of the exception, the Court resorted to an illustration of familiar cases. In the language of the Court: (Page 447).

If a farm laborer had been employed specifically to build a wire fence which would keep cattle out, and had hit upon the successful method of attaching a barb, ought the employing farmer to have been entitled to the barbed wire patent? If the superintendent of a mining company's stamp mill had been directed to put his energies on finding a better plan of concentration to use in the company's work, and had hit upon the flotation process, should the mining company be entitled to the patent? Nor, is there any hardship to the employer in denying that a contract to devise a particular improvement conveys title to any resulting invention. If that is the intent, it is easy to say so.

A further apt illustration was to the effect that if any employee was hired to improve all of the articles in the employer's line of manufacture, under the general rule above set forth in the Hapgood case, title to any resulting patent would not pass to the employer; but if the title passed when the employee was hired to devise only one article or specific improvement, then what would be the law about the agreement to try to improve some but not all of the articles so manufactured? It is obvious therefore that practical difficulties in the application of the law would immediately arise. Accordingly, the Court found no logical basis as well as great practical difficulty in the application of the alleged exception and concluded that the exception cannot be proven unless there is compelling authority to that effect. A review of the entire field in which the Supreme Court had touched the subject as set forth in the following cases was then disclosed.

The principal cases reviewed by the Court were:

McChurg vs. Kingsland 1 How 202, 11 L. 102.

Hapgood vs. Hewitt 119 U. S. 226, 7 Sup. Ct. 193.

Solomons vs. United States 137 U. S. 342, 11 Sup. Ct. 88.

Dalzell v. Dueber Watch Case Mfg. Co. 149, U. S. 315, 13 Sup. Ct. 886.

Lane v. Locke 150 U. S. 193, 199 14 Sup. Ct. 78.

McAleer v. United States 150 U. S. 424, 14, Sup. Ct. 160.

Gill vs. United States 160 U. S. 435, 16 Sup. Ct. 322.

In the Hapgood case, Hewitt was expressly employed to devote his time and services to devising means in perfecting plows. During such employment he made an invention and it was held that the title of the invention did not pass to the employer. Here, the employment was for a particular thing under an express contract of employment.

In the Solomons case, Clark was employed and assigned the duty of devising an internal revenue stamp. He did devise a self-cancelling stamp which was adopted. Later, however, after he had obtained a patent, suit was brought for infringement against the United States. About the only thing involved was the right of the United States to use the stamp without paying royalty. Accordingly the question of license rather than that of title to the patent was at issue. In this case, Justice Brewer divided the master and servant situation into two classes: "one, wherein there is only a hiring for general service in which the facts may support an inference of license, and the other, wherein there is a specific hiring to devise an improvement in which the master's rights in any resulting invention arise as a matter of law." The phrase "arise as a matter of law" would seem to indicate that the master was entitled to the invention and to any patents which may have been granted therein. But, it is pointed out that the Solomons case was in the Supreme Court on appeal from the Court of Claims where it had been held that while the government did not obtain a specific interest in the patent, so as to exclude other persons from the use of it, nevertheless, it acquired the right to use the stamp without liability to the inventor, and that it was this decision which Justice Brewer was affirming. Accordingly, the language used was construed to pertain only to a license and to be obiter so far as the question of title was concerned.

In the Gill case, the only question involved was whether the employer had a license. Justice Brown, however, in the opinion,

referred to the Solomons case and said "in the case of specific employment the patent belongs to the employer." This language, however, was construed as not only being completely obiter in the Gill case but even a misunderstanding of the Solomons case.

In the Dalzell case, Dalzell was specifically assigned to devise means for perfecting an apparatus for making watch cores. In this case, the company paid all expenses for obtaining a patent which, however, was necessarily taken out in the inventor's name. In the Circuit Court the patent was held to belong to the employer, but the Supreme Court reversed this decision. In the opinion of Justice Grey, the proposition was restated that the employer is not entitled to the patent "in the absence of express agreement to that effect."

In the McGlurg, Lane and McAleer cases, the question of license only was involved, and accordingly the ownership of patent rights under specific employment was not at issue.

Thus, Judge Denison disposed of all Supreme Court cases by showing the denial of the exception in two cases (Hapgood and Dueber), and showing the affirmation in only one case clearly (Gill) and in another case, doubtfully (Solomons), but explaining that the affirmations were irrelevant to the issue. Accordingly, the weight of authority of the Supreme Court was shown beyond dispute to deny exception.

The Court then referred to the *National Box Company vs. Healy* 189 Fed. 49, 56, and to the Hansen case 137 Fed. 303. Regarding the last mentioned case the Court says: "The Hansen case has several times been cited approvingly on the general proposition that there must be an expresse agreement to assign. . . ."

In the National Box Case, the Circuit Court of Appeals of the Seventh Circuit stated:

No matter what the contract of service may be—whether for ordinary employment or for specific inventive work—the master cannot have title to an invention of a servant, in the absence of an express contract to assign it to him, although made in the course of the service and at the master's expense.

The Court concluded then that "an invention does not belong to the employer merely by virtue of the employment contract, as well when that employment is to devise or improve a specific thing as when the employment is to devise means generally in the line of the employer's business."

The Court stated further:

Outside of the face of the contract, there is no evidence as to the intent of the parties at the time it was made, and we find no evidence of subsequent conduct by the parties sufficient to indicate Peck's conscious purpose that the title should pass or establish an estoppel against him to that extent.

The *Peck vs. Standard Parts Company* case, then defines the law, for the Sixth Circuit, at least, that where there is no evidence as to the intent of the parties at the time the specific express contract was made, and there is no subsequent evidence of estoppel, then the title to inventions made by the employee in the course of the employment belongs to the employee, while the employer obtains merely a non-transferable, non-exclusive license. Accordingly, to protect an employer against the possibility of future competition, every contract for employment whether general or specific should contain an agreement to assign any patents which may be obtained upon an invention made during the course of the employment and within the scope of the employment.¹

¹ Accord. *Fuller Johnson Man. Co. v. Bartlett*, 68 Wis. 73, 31 N. W. 47; *Valley Iron Works Co. v. Goodrick*, 103 Wis. 436, 78 N. W. 1096; *Rowell v. Rowell*, 122 Wis. 1, 20, 99 N. W. 473.—Ed.