

Agreements Protect Patent Rights

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Sign this and we won't fire you...for a while, anyway. These could be the magic words for a company in Ontario that is trying to get its employee or contractor to sign a formal assignment of ownership of patent rights to the company. The good news is that with some simple precautions discussed below, a company can avoid this scenario and clearly confirm its ownership of technology up front.

The Ontario Court of Appeal has given employers a big stick with its decision in *Techform Products Ltd. V. Wolda* (2001), 56 O.R. (3d) 1; 15 C.P.R. (4th) 44 (C.A.). A company can require an inventive employee or independent contractor to assign ownership of patent rights as long as the company promises to forbear from dismissing the inventor for a reasonable period of time. The promise can be either express or implicit.

Ownership of inventions: this land is my land...unless it's your land

As a general rule, an employee will own her invention unless a) there is an express or implied agreement to the contrary, or b) the employee was hired to invent and makes the invention in the course of employment.

An independent contractor will own her invention unless there is an express or implied agreement to the contrary. This rule also applies to contracts between companies.

It is usually easy to identify the written or oral contract that created the initial relationship between the company and inventor. At a minimum, the contract dealt with financial terms and scope of work. The initial contract could also deal with ownership of inventions and other intellectual property, but it is sometimes left to a subsequent agreement or an amendment to the initial agreement. The twist is that the subsequent agreement may not be valid if it is signed *after* the initial contract. This is because a modification of a pre-existing contract is typically not enforceable without a further benefit (consideration) to both parties.

A simple way to provide further consideration is to tie the signing of an ownership agreement to the inventor's receipt of discretionary compensation, such as a pay increase, bonus, promotion or contract renewal (even if the compensation is unrelated to the invention). There are other ways to seal the deal.

Forbearance: the gift that keeps on giving

In *Techform v. Wolda*, forbearance from firing for a reasonable time was the benefit received by Wolda, the independent contractor. The company, Techform, confirmed that Wolda would have been given sixty days' notice of termination if he had refused to sign an agreement transferring his ownership of inventions. Wolda knew that he had to sign the ownership agreement or he would be let go. Wolda's contract for services continued for several years after the agreement was signed. After a falling out, Wolda was terminated and each side sued for a declaration of ownership of Wolda's inventions. Wolda claimed that the ownership agreement was unenforceable because it was signed under duress and lacked consideration. The Ontario Court of Appeal upheld the agreement and Techform walked away with the patents.

The Court stated that, in general, continued employment or contract work without more could not serve as consideration for a subsequent agreement or an amendment to the agreement that was adverse to the inventor. Continued employment or contract work represents nothing more of value flowing to the inventor than under the original contract. For a similar reason, the Court stated that, presenting an inventor with an ownership agreement and saying, "Sign or you'll be fired" will not produce a binding agreement. There must be at least an implicit promise of forbearance from firing the inventor for some period of time thereafter. It is not clear how many days a company must count down on the calendar to provide a reasonable period of forbearance.

Wolda was under significant pressure to sign the agreement. However, an inventor's plea that an agreement is unenforceable because of duress will only succeed where

there is illegitimate pressure applied to such an extent that the inventor has no choice but to submit. This is a difficult standard to meet.

Front end precautions

The initial agreement with the inventor should deal with ownership of patent and other intellectual property rights by transferring ownership to the company, or, at a minimum, granting the company an option to license inventions. Terms dealing with ownership of intellectual property are as fundamental to a technology company as terms dealing with financial compensation and scope of work. The company's ownership rights may be secured up front even though the invention has not been made at the time of the initial agreement.

The inventor should also be obligated to sign confirmatory assignments of ownership and assist the company in registering and defending its rights. Inventions must be kept confidential during and after the inventor's work with the company.

Back end precautions

The initial agreement may also include a noncompetition clause which controls the activities of the inventor during and after the agreement. This clause can put a limited time or geographical restraint on an inventor's commercial use of technology. It is useful where a company does not have a practice of patenting inventions (a Canadian patent is the strongest protection because it prevents *any* commercial use of the invention throughout the country). Noncompetition clauses will be void unless they are reasonable in the scope of activities restrained, geographical area and duration. Courts are less likely to enforce noncompetition clauses against individual inventors than between arm's length companies. Enforcement is also more difficult if the inventor is not in a senior or fiduciary position.

By following these simple precautions, a company can clearly and indisputably ensure its ownership of patent rights. The big stick can then be saved for more mundane matters, such as casual day dress code violations.

Noel Courage practices intellectual property law with Bereskin & Parr LLP in Toronto.