

Determining ownership of intellectual property

Who's the Owner?

BY ERNEST I. GIFFORD

The general rule is that, at least initially, intellectual property in the form of patent rights, copyrights, or trade secrets belongs to the creator of the property. Even trademark rights can, in a sense and in some situations, initially belong to the creator as opposed to the general rule that the first user of a trademark is the owner of trademark rights regardless of who creates the trademark.

Patent Rights

Patent rights are embodied in a patent issued by the U.S. Patent Office on an invention in the form of “a new, useful and unobvious process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”¹ Recently, methods of doing business have been added to the list of inventions that may be patentable.² A patent does not confer the right to make the patented invention on the owner of the patent, but instead grants the owner the right to prevent others from making, offering for sale, selling, or using the patented invention.³

The inventor is the creator of the invention that forms the basis of the patent rights. Patent applications, at least in the United States, have to be filed in the name of the inventor or the creator of the invention. The patent rights may be sold or assigned and often are. The assignment can be recorded in the Patent Office and the

assignee then becomes the registered owner of any patent rights created by a patent issuing from the patent application.⁴

Patent rights are considered to be personal property and therefore unlike most of the law dealing with patents, which makes patents subject to federal law, laws of the individual states govern patent ownership. Like other forms of personal property, patent rights can be jointly owned. When two or more persons have contributed to the making of the invention they are joint inventors and because the joint inventors are treated as tenants in common rather than as joint tenants, upon the death of one of the joint tenants, his or her share passes to his or her heirs rather than to the other joint inventors.

Very often the patent rights are assigned to the employer of the creator or creators. This is commonly the result of an employment agreement that is executed by the employee at the time that employment begins. The validity and interpretation of these agreements are determined in accordance with state law even though they involve a federally created right to protect inventions and the transfer of ownership of such rights. Like all agreements, they require legal consideration, but whether or not there has been a legally sufficient consideration to create a legally binding contract is a matter of state law. Generally, there is no problem in finding the necessary consideration if the agreement is executed near the time of initial employment.

It is when the agreement is executed after the initial employment of the inventor that a problem may arise. Finding the consideration benefiting the employee necessary to support an agreement by the employee to assign all his or her inventions to his or her employer in those situations is difficult and sometimes impossible. When such agreements are found to be valid, the employer often bases it upon the continued employment of the employee. This may or may not satisfy the requirement of legal consideration.

Often, even if a valid agreement has been entered into between the employee and the employer, there may be a question of whether or not a particular invention belongs to the employer rather than the employee. Generally, an employer can only claim rights to an invention directed to subject matter that has value or potential value with respect to the employer's business. More than that is considered overreaching and since such contracts are very often contracts of adhesion, i.e., a contract in which one side, here the employer, holds all the cards and the employee has little or no say as to what the terms of the contract will be—such contracts are strictly construed against the employer.

When there is no written contract between the employee and his or her employer that defines the ownership of inventions created by the employee, then the question will turn on the nature of the employee's employment. Is inventing a part of his or her expected duties? If it is, then his or her inventions will belong to his or her employer as though he or she had executed a written contract agreeing to assign his or her inventions to the employer.

If there is no written agreement, and the employee is not in a position in which he or she is expected to invent, his or her employer may still have limited rights to his or her inventions. An employer has a "shop right" in the inventions of its employees when the invention is made on the employer's time with the aid of the employer's resources. A shop right, however, only permits the employer to use the invention in its business and doesn't permit the employer to sell products utilizing the invention or to license others to do so.⁵ A shop right can exist in an idea that fails to meet the requirements of an invention.

Trade Secrets

State laws for the most part govern trade secret law.⁶ Most states, including Michigan, have adopted the Uniform Trade Secret Act, which generally defines a trade secret as "consisting of any formula, pattern, physical device, idea, process or compilation of information that both:

- provides the owner of the information with a competitive advantage in the marketplace, and
- is treated in a way that can reasonably be expected to prevent the public or competitors from learning about it, absent improper acquisition or theft."⁷

A formula such as the formula for Coca-Cola is an example of a valuable trade secret. The rights to a trade secret only exist as long as the formula, drawings, business methods, and inventions are kept secret. Protection is afforded against acquisition by wrongful means. Acquiring the trade secret in lawful manner is not actionable.

The employer, rather than the employee, generally owns trade secrets. One of the requirements of creating a trade secret is that

Fast Facts:

A patent grants the owner the right to prevent others from making, offering for sale, selling, or using the patented invention.

One of the requirements of creating a trade secret is that reasonable efforts are made to keep it secret.

Trademarks are owned by the source of the product or services of the trademark user rather than the creator.

reasonable efforts be made to keep it secret. These efforts include an express or an implied agreement by employees in a position to know the secret to do their best not to disclose the secret to outsiders. Such an agreement is an acknowledgement by the employee that the trade secret, regardless of its source, belongs to the employer.

Controversies involving the ownership of trade secrets often arise when the employee leaves the employment of the employer. Although there are cases in which the courts have held that the trade secrets belong to the departing employee, either because the employee created the trade secrets without an obligation to do so or she brought the trade secrets with her when she entered into the employment relationship,⁸ most of these situations are decided on the issue of whether or not there was an implied or an express agreement setting forth the ownership of the employer's trade secrets and whether or not the items in question are in fact trade secrets.

Although in most instances, at least initially, the creator of the item that becomes a trade secret is the original owner of the property rights in the item, ownership is transferred to the employer soon after creation either by an implied or an express agreement.

Copyrights

Copyright is a form of protection provided by the laws of the United States to the authors of "original works of authorship," including literary, dramatic, musical, artistic, and certain other intellectual and artistic works.⁹ This protection is available to both published and unpublished works. Unlike other forms of intellectual property such as patent rights and trade secrets, who initially owns a copyright is largely determined by federal law.¹⁰

At least some of the rights afforded to copyright owners come into existence when the "pencil leaves the paper" or in other words at the time of creation.¹¹ Additional rights are obtained when an application is filed in the U.S. Copyright Office and a registration is obtained. The application is filed in the name of the "author," who can be either the creator or the employer of the creator where the work is considered to be a "work for hire."¹² An assignment of the copyright must be in writing and can be filed either with the application or later.¹³

The author is the employer where an employee does the work and the employee has either an implied agreement or has signed a written employment agreement that copyrights arising out of the

employment will belong to the employer. If there has been an assignment of the copyright prior to registration, the application is filed in the name of the author, but filing the assignment with the application will record the assignee as the owner of the registration.

One who commissions certain types of works is also the “author” for purposes of filing a copyright application and obtaining the copyright registration of the commissioned works, provided the works are in a form specified by the copyright statute.

In the case of works made for hire, the employer and not the employee is considered to be the author. Section 101 of the copyright law defines a “work made for hire” as:

- (1) *a work prepared by an employee within the scope of his or her employment; or*
- (2) *a work specially ordered or commissioned for use as:*
 - *a contribution to a collective work*
 - *a part of a motion picture or other audiovisual work*
 - *a translation*
 - *a supplementary work*
 - *a compilation*
 - *an instructional text*
 - *a test*
 - *answer material for a test*
 - *an atlas*

*if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire . . .*¹⁴

Trademarks

A trademark is a name, slogan, logo, or the like that is used with a product or service indicating the owner of the mark as the source of the goods or services (service mark) and distinguishes the goods or services of the owner from the goods or services of the owner's competitors.¹⁵ Chevrolet is a trademark, as is the MGM lion and the NBC chimes. Because trademarks and service marks serve to indicate the source of goods and services, it follows that they are owned by the business entity, which is the source of the goods and/or services rather than the creator of the mark. Ownership of trademarks and service marks is created by use rather than by creation.

Registration, either state or federal, is not required to obtain the right to use a mark or to prevent others from using the unregistered mark.

Use of a trademark or service mark defines ownership between the source of the goods or services and those who use a confusingly similar mark for related goods, but the creator may have contract rights against the user of the mark. If the mark was developed for or offered to the user, then contract rights, either implied or express, may define the rights between the user of the trademark and its creator.

Summary

In the absence of a contract, either implied or express, patents, trade secrets, and copyrights belong to the creator. A contract requiring an employee to assign those rights to an employer can be implied from the nature of the employment duties. In the matter of copyrights and trade secrets, original ownership can be in the employer and not the creator, when property is a work for hire or when the employer's resources have been used to create a trade secret as a

part of the employee's duties. Trademarks are owned by the source of the product or services of the trademark user rather than the creator. However, the creator may have contract rights that provide the creator with rights to compensation for the user's use of the mark. ♦

Ernest I. Gifford is a principal in the Birmingham Intellectual Property firm of Gifford, Krass, Groh, Sprinkle, Anderson & Citkowski P.C. He has taught an intellectual property course in the Paralegal Program at Oakland University for more than 20 years. He has been an associate professor at Stetson Law School in St. Petersburg, Florida, teaching a course in patent and copyright law, and he is presently teaching a course on patent prosecution in the master's program at Cooley Law School at Oakland University.

Footnotes

1. 35 USCA 101.
2. *State Street v Signature*, 149 F3d 1368, 47 U.S.P.Q. 2d 1596, CAFC 1998.
3. 35 USCA 271.
4. 35 USCA 261.
5. *Cabill v Regan*, 5 NY2d 292, 121 U.S.P.Q. 58, (1959).
6. *Kewanee Oil Co v Bicon Corp*, 416 US 470, 94 S Ct 1879, 181 U.S.P.Q. 673, US S Ct 1974.
7. MCLA 445.1902(d).
8. *Structural Dynamics Research Corp v Engineering Mechanics Research Corp*, 401 F Supp 1102, ED Michigan 1975.
9. 17 USCA 102.
10. 17 USCA 201.
11. 17 USCA 101.
12. 17 USCA 201(b).
13. 17 USCA 101.
14. 15 USC 101.
15. MCLA 429.31.