The Limited Monopoly

Have Brain, Will Invent: Who Owns Your Inventions?

The Law.

Our U.S. Constitution provides that inventors shall have "the exclusive right to their discoveries." Accordingly, Federal statute 35 USC 111 states that, "An application for patent shall be made, or authorized to be made, by the inventor..."

At the time of conception, an invention is owned by the inventor, or inventors. The inventor(s) may be contractually obligated to assign their rights to the invention to a third party – typically an employer, or a client. Employment or consulting agreements often contain language defining who owns the patent rights to an invention that is conceived during the performance of "work for hire."

The fundamental principle of U.S. law, however, is that the inventor owns his/her invention absent an agreement to the contrary (such as specific language in an employment agreement, a consulting agreement, or a contract). Lacking a specific agreement that spells out who owns patent rights is a recipe for conflict and for a "lose-lose" situation.

"Water Water Everywhere – Nor Any Drop To Drink."[1] (Not without a lengthy court battle, at least.)

This principle is illustrated in the case of City of Cocoa v. Leffler, et al.[2] In this case, and until the early '90's, the residents of the City of Cocoa, Florida had endured the rotten egg aroma of hydrogen sulfide-laced water for years. In 1993, the city hired an engineering firm to design a new water treatment plant that would remove the H_2S. When the proposed design was too expensive, Cocoa officials formed an in-house team of seven employees to design an alternative system.

Early on in the operation of the team's system, a blower malfunctioned, creating conditions that were expected to halt the removal of the H_2S. To everyone's surprise, the new system kept working. Subsequent studies showed that unique conditions in a tower in the system had caused bacteria to grow, and the bacteria were removing the H_2S. This bacterial process was the basis for a further optimized system that was placed on-stream in 1996, which operated at double the efficiency of the old plant.

The team conferred, and decided to pursue patenting of their invention, at their own expense. When the Cocoa City Council learned of their plan, it decided that, 1) the city would fund the patent application; 2.) no compensation would be paid to the inventors; and 3.) the inventors would be required to assign their patent rights to the city. The patent application was filed, and on August 4, 1998, U.S. patent 5,788,843 issued.

Unfortunately for the City, only five of the seven inventors assigned their patent rights to the City of Cocoa. The City sued the two holdouts, Glynn Leffler and Gary Heller. The City's effort to obtain an injunction forcing Leffler and Heller to assign their rights was denied. Subsequently, the two cases were split for trial. Heller won his case by a jury verdict, which was affirmed on appeal.[3] Leffler won his case in a non-jury trial, which was also affirmed on appeal.[4]

So in the end, the rights to the '843 patent were jointly owned by Leffler, Heller, and the City of Cocoa. According to a March 26, 2002 *Wall Street Journal* article by Jerry Markon, the potential licensing fees for the patent were estimated at about $300 million. But nobody won here. Why? Because according to Federal statute 35 USC §262, each of the joint owners is entitled to independently make, use, or sell the patented invention – or to license others to do so – without accounting to the other owners. Hence, no party was willing to pay for a license of the invention from a first owner, when additional owners could license the invention to a competitor for less money – or none at all, giving that competitor an advantage.

What IS that smell?

This case pitted the interest of the inventors against those of Cocoa taxpayers. It was tried in Florida state courts, and turned on a number of issues governed by Florida employment law. The most critical facts in the case were that there was no agreement in place by which the inventors were obligated to assign their patent rights, and that the inventors were not hired to invent a new technology or method. In view of that, the courts found that Leffler and Heller owned the rights to their invention in accordance with federal law.

The moral of this story is that if you're a party involved in work that could result in the creation of intellectual property – an inventing employee, an employer, a consulting engineer, a client, or a vendor – an agreement should be in place up front that addresses the ownership of any resulting intellectual property.

As an employer or client, if you're paying people to produce inventions, you probably want to own them. If you're a consulting engineer, and you're inventing for clients, that's a valuable service worth more than basic design work. And if you're an employee who is actively inventing and patenting your own inventions, you should be aware of any language in an employment agreement that pertains to the ownership of inventions. Keep in mind that the terms of ownership to future patent rights are negotiable. And they're best negotiated upfront, so nobody ends up smelling like rotten eggs.

1. Samuel Taylor Coleridge, "The Rime of the Ancient Mariner," ca. 1798.
2. *City of Cocoa v. Leffler*, 741 So. 2d 612 (Fla. 5th DCA 1999).
3. *City of Cocoa v. Leffler*, 791 So. 2d 487 (Fla. 5th DCA 2001).
4. *City of Cocoa v. Leffler*, Case No. 5D-01-1141 (Fla. 5th DCA 2002).

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