

## ONTARIO eNEWS

### Ownership of inventions – A cautionary tale for manufacturing employers

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*Manufacturers are in business to develop, produce and sell products. But in reality, many products are invented, not by the manufacturing company, but by one or more of its employees or contractors. This raises the question: who owns the invention – the manufacturer or the inventor? As is often the case with legal questions, the answer depends.*

#### Legal Presumption Favours Inventor

In Canada, for an invention subject to patent protection<sup>[1]</sup> the employee is presumed to own the invention unless the employee was hired for the purpose of inventing the product.<sup>[2]</sup> This exception has been interpreted narrowly by judges, and offers no protection to a manufacturer if an enterprising employee, who was not hired to invent, conceives of a valuable invention in the course of his or her employment. However, this presumption is not absolute and there are steps a manufacturing employer can take to protect its business interest.

#### The Hired to Invent Exception

In *Comstock Canada v Electec Ltd* (“Comstock”)<sup>[3]</sup> an electrical manager employed by Comstock invented a “system for interconnecting light fixtures by means of modular receptacles and armour-cabled cord sets”. A dispute arose between Comstock and the manager as to who owned the invention. Comstock asserted it owned the invention on the basis that the manager was “hired to invent”.

The trial judge identified eight factors to consider when determining whether an employee was “employed for the purpose of inventing”:

1. Was the employee hired for the *express* purpose of inventing?
2. Had the employee previously invented?
3. Did the employment arrangement include an incentive plan encouraging product development?
4. Was the invention the result of a problem the employee was *instructed* to solve (*i.e.* was there some duty to invent)?
5. Did the invention occur with the benefit of consultation with others in the company?
6. Was the employee dealing with highly confidential information or work?
7. Was it as a term of the employee’s employment he or she could not use ideas developed for personal advantage?
8. Did the employee’s behaviour suggest the employee believed the employer owned the invention?

In this case the manager was neither instructed nor requested by Comstock to invent the interconnecting light fixture system. He pursued this invention on his own initiative, developed it after working hours and was not paid for his time by Comstock. On the other hand, the manager worked on the invention at Comstock’s premises, used Comstock’s tools and materials, and consulted with other Comstock employees in developing the invention. Still, the trial judge determined the manager was not “hired to invent” and therefore he retained ownership of the invention.

Similar Considerations Apply to Independent Contractors

The court's analysis in *Comstock* also applies when an independent contractor retained by a manufacturing employer creates an invention. The contractor owns the invention unless there is an agreement to the contrary. In the absence of an express agreement, the court will look at the circumstances giving rise to the invention and the conduct of the parties to determine if an agreement can be implied.

In *Techform Products v Wolda* ("*Techform*")<sup>[4]</sup> an independent contractor - Mr. Wolda - invented a "valuable truck hinge" on his own initiative while performing work for Techform. Wolda was not specifically tasked with inventing the hinge, but he billed Techform for his time and obtained assistance from Techform employees in developing the hinge. Both Techform and Wolda claimed to own the invention. The court considered the factors in *Comstock* and found a *presumption* of ownership favouring Wolda as the inventor. However, in this case the court ultimately found Techform owned the invention because Wolda had signed a valid intellectual property agreement assigning his ownership rights to Techform.

#### Best Practices For Obtaining an Intellectual Property Agreement

Both of these cases demonstrate the importance of ensuring intellectual property rights are assigned to the employer in a valid written agreement. The best time to do so is before the employee or the independent contractor starts work. At that point the promise of the job itself can stand as the "consideration" necessary to compensate the inventor for assigning ownership of future inventions to the employer.

However, in situations where an agreement has not been obtained before work begins, a manufacturing employer can still request an employee or contractor enter into an agreement so long as an alternate form of consideration is provided. Examples of alternate consideration include increased compensation, promotion, or a bonus the employee or contractor would not otherwise have received.

To maximize the protection available, an intellectual property agreement should, at the very least, expressly assign to the employer all intellectual property rights to inventions conceived or made as a result of the employment or contracting relationship, including patent applications filed after the end of the employment or contracting relationship. Employees and contractors should also be required to notify the employer promptly of any invention conceived or made by the employee or contractor. Finally, the agreement should include a clause requiring the employee or contractor to assist the employer with patent applications, and if requested, to cooperate with any enforcement of patent rights after the patent has been granted.

To learn more, and for assistance protecting your organization's intellectual property, contact a member of Sherrard Kuzz LLP.

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<sup>[1]</sup> RSC 1985, c P-4.

<sup>[2]</sup> Note that the opposite presumption applies under the *Copyright Act*, RSC 1995, c C-42 with respect to works created by an employee in the course of employment.

<sup>[3]</sup> (1991), 45 FTR 241.

<sup>[4]</sup> (2000), 5 BLR (3d) 118 (Ont Sup Ct J) aff'd (2001), 56 OR (3d) 1 (CA).