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PATENTS — VALIDITY OF CONTRACTS TO ASSIGN EMPLOYEE'S FUTURE INVENTIONS TO EMPLOYER — The relative rights of employer and employee to the fruits of the employee's inventive genius have become increasingly important. In deciding these rights the courts have shown a marked tendency to favor the employee, possibly to compensate for the superior bargaining power of the employer. They have been anxious to limit the rights in the employer implied by the relationship of the parties. Contractual ambiguities have been construed in favor of the employee to a far greater extent than is called for by the rule of construction against the party drawing the contract. Unusual rights in the employer must be stated in unequivocal and unmistakable

language to be given effect by the courts.[1] Moreover, when the provisions in favor of the employer were clear, the courts have stood ready to nullify them, if unconscionable, by refusing to enforce them specifically or by finding them void as against public policy.

> ". . . A naked assignment or agreement to assign, in gross, a man's future labors as an author or inventor,—in other words, a mortgage on a man's brain, to bind all its future products,—does not address itself favorably to our consideration. It is something like engagements of an expectant heir, binding the property which he may afterwards inherit, which are always looked upon with disfavor by the law."[2]

Questions of implied rights of the employer in the employee's inventions and questions of contract construction are without the scope of this comment.

In general, contracts to assign future inventions will be enforced, there being consideration and mutual assent, unless some public policy overrides the intent of the parties. Such public policy involves two main considerations. First, when the inventor, for a past consideration, must assign all the fruits of his inventive genius, invention is discouraged and the public is injured. Secondly, public policy decries the "mortgage of a man's brain" and the invasion of his earning power. On the other side of the picture, public policy requires "that men of full age and competent understanding shall have the utmost liberty of contracting, and that their contracts when entered into freely and voluntarily shall be held sacred and shall be enforced by courts of justice."[3] And specifically, invention is promoted rather than discouraged by enforcements of such contracts in three ways. The inventor will be able to sell his invention for a much higher price if he can assure the buyer that its value will not be destroyed by subsequent improvements so readily devised by the original inventor. Large and productive research laboratories are feasible only if the employer be assured of control of the resultant developments. The success and growth of such institutions is greatly imperiled if the employer must run the danger of divulging to a new employee all the trade secrets of the company, allow him the use of costly facilities and equipment, and extend to him

[1] National Cash Register Co. v. Remington Arms Co., 212 App. Div. 343, 209 N. Y. S. 40 (1925), affd. 242 N. Y. 99, 151 N. E. 144 (1926); Jenkins Petroleum Process Co. v. Sinclair Refining Co., (D. C. Me. 1928) 32 F. (2d) 247, affd. (C. C. A. 1st, 1929) 32 F. (2d) 252; Standard Plunger Elevator Co. v. Stokes, (C. C. A. 2d, 1914) 212 F. 893.

[2] Aspinwall Mfg. Co. v. Gill, (C. C. N. J. 1887) 32 F. 697 at 700.

[3] Printing & Numerical Registering Co. v. Sampson, L. R. 19 Eq. 462 at 465 (1875).

the co-operation of its other employees, only to have him quit his position when he gets a good idea, perfect it on his own, and withhold the benefits from the company. Moreover, it is pointed out that facts do not bear out the contention that invention ceases in the absence of anticipated remuneration. It is said that psychic enjoyment rather than pecuniary gain is the true incentive of every real inventor.[4]

An accurate opinion as to how the courts will react to a specific fact situation cannot, however, be formulated by balancing these broad policy arguments. It is necessary to dig deeper into an examination of the specific factors that might influence our courts one way or the other on the validity question, and to see what their reaction to such specific factors has been in the past.

It is obvious from an examination of the cases that the mere fact that an agreement to assign future improvements or inventions extends to a time *after* assignment of a specific invention, or *after* the term of employment has expired does not in itself make an agreement invalid. *Hulse v. Bonsack Machine Co.*[5] is the strongest case in support of this statement.[6] There the employee was hired at $50 a month and agreed to assign exclusive use of any improvement on cigarette machines made by such employee either during or at any time after his employment with the plaintiff. Introduction of the employee to plaintiff's trade secrets and the limited kind of invention included in the contract were principally relied on in finding the contract within public policy. In a case holding void a contract to assign inventions made *after* termination of employment, the terms of the contract included all inventions relating "to any business in which said company during the period of my employment by said company or by its predecessor or successor in business, is or may be concerned." The broad scope of such provision was emphasized and found to extend beyond the reasonable need of protection by the company and to seriously limit the possibility of other employment of the inventor.[7] A substantially similar contract was upheld when "limited to inventions connected with, relating to, and growing out of, certain designated inventions, applications, and patents" being distinguished from an agreement relating to a general subject.[8]

Contracts to assign future improvements on specific inventions pur-

[4] Id.

[5] (C. C. A. 4th, 1895) 65 F. 864.

[6] See also Chadeloid Chemical Co. v. H. B. Chalmers Co., (C. C. A. 2d, 1917) 243 F. 606; Thibodeau v. Hildreth, (C. C. A. 1st, 1903) 124 F. 892; Wege v. Safe-Cabinet Co., (C. C. A. 6th, 1918) 249 F. 696; National Cash Register Co. v. Remington Arms Co., 242 N. Y. 99, 151 N. E. 144 (1926).

[7] Guth v. Minnesota Mining & Mfg. Co., (C. C. A. 7th, 1934) 72 F. (2d) 385.

[8] Dry Ice Corp. of America v. Josephson, (D. C. N. Y. 1930) 43 F. (2d) 408 at 416.

chased rest on more solid ground than after-employment stipulations.[9] Although the consideration is usually a lump sum for a completed invention with no obligation on the inventor to seek out further improvements, the danger of having a large investment nullified by subsequent improvements so readily conceived by the inventor has been thoroughly appreciated by the courts with the result that future improvement stipulations are invariably upheld.[10] There is English authority not only in support of assignments of future "improvements" in the technical sense but also of "the same kind in the shape of machinery or apparatus which will produce the product in which they are about to deal" whether invented by the assignor or acquired by the assignor from another.[11] This position has been recognized in the United States, at least in part, as in the case of *Piggly Wiggly Corporation v. Saunders*,[12] where an assignment of all "future inventions in means or methods for the operation of self-serving stores" was upheld.[13] Again, where all future patents acquired for any paper-feeding mechanism were included, the assignment was upheld when limited to the period of the assigned patent, since it extended only to particular kinds of inventions in a specified field.[14]

It might reasonably be expected that where the scope of the contract as to the nature of the inventions included goes beyond the scope of the employer's business, the courts would be unwilling to uphold such provision. The few cases on the point indicate validity, however, when the contract has been limited to the duration of employment. In *New Jersey Zinc Co. v. Singmaster*[15] the contract included not only inventions but all *ideas*, whether or not reduced to practice, and all kinds of ideas, not merely those relating to the employer's business. It was enough to make the terms reasonable that any basis for dispute as to what ideas were included should be avoided. *Guth v. Minnesota*

[9] Piggly Wiggly Corp. v. Saunders, (D. C. Tenn. 1924) 1 F. (2d) 572; Printing & Numerical Registering Co. v. Sampson, L. R. 19 Eq. 462 (1875).

[10] Aspinwall Mfg. Co. v. Gill, (C. C. N. J. 1887) 32 F. 697; Westinghouse Air-Brake Co. v. Chicago Brake & Mfg. Co., (C. C. Ill. 1898) 85 F. 786; McFarland v. Stanton Mfg. Co., 53 N. J. Eq. 649, 33 A. 962 (1896).

[11] Printing & Numerical Registering Co. v. Sampson, L. R. 19 Eq. 462 at 464 (1875).

[12] (D. C. Tenn. 1924) 1 F. (2d) 572.

[13] The fact that $3,500,000 consideration was paid to the assignor was significant in reaching the decision.

[14] Miller Saw-Trimmer Co. v. Cheshire, 172 Wis. 278, 178 N. W. 855 (1920). See also A. B. Dick Co. v. Fuller, (D. C. N. Y. 1912) 198 F. 404; Birkery Mfg. Co. v. Jones, 71 Conn. 113, 40 A. 917 (1899); Consolidated Railway Electric Lighting & Equipment Co. v. United States Light & Heating Co., 77 N. J. Eq. 285, 78 A. 684 (1910).

[15] (D. C. N. Y. 1933) 4 F. Supp. 967.

Mining & Mfg. Co.[16] might be cited to the contrary, but there it was the *combination* of terms unlimited in time and almost unlimited in scope that served to make the agreement invalid. No case has been found holding invalid an agreement solely on the basis of too broad a scope as to inventions covered.

Another phase of this same question arises when an invention has useful application both in the employer's business and unrelated businesses. A possible solution might be to enforce the employer's exclusive rights to the invention as usable in his business, leaving remaining rights to the inventor. If the courts are unwilling to give relief to the employee where the entire invention is outside the scope of the employer's business, *a fortiori* they would not give relief when the invention does have some application to his business. However, where the contract stipulates only for inventions relating to the employer's business, the above solution might be argued before an equity court with greater chance for success. No authority has been found on either side of this point.[17]

It is plausible that the source of materials and equipment necessary to perfect the invention in question and the source of ideas forming the background for such invention should have some bearing on the validity of the contract to assign the same. Of course, in the case of a sale of a a perfected invention it is the normal thing for such sources to be independent of the assignee, but the usual employment contract contemplates that material and equipment will be furnished by the employer as well as the background ideas. Quaere, would an assignment contract be valid as applied to inventions perfected during employment but after working hours at the employee's sole expense when the idea was derived independently of the inventor's employment? Distinctions are possible, e.g., whether or not the invention was related to the employer's business and whether the employee was paid by the hour or by a longer period. There is almost no authority on this point, but at least one case held that it was immaterial that the invention in question was perfected at night when salary was paid by the month or year.[18]

Another factor to be taken into account is the consideration passing to the inventor for his promise to assign future inventions. While logically the amount of consideration is irrelevant if there is some consideration that is the agreed exchange for the promise, does it make any practical difference that a large sum has been paid; that the inventor has an ownership interest in, or partnership interest with, the

[16] (C. C. A. 7th, 1934) 72 F. (2d) 385.

[17] It is to be noted that in every case found involving an express agreement for rights in future inventions, the stipulation was for transfer of complete ownership.

[18] The invention in this case did relate to the employer's business. Toledo Machine & Tool Co. v. Byerlein, (C. C. A. 6th, 1925) 9 F. (2d) 279.

claimant; that some promise exists of additional compensation to be forthcoming upon assignment of future inventions? It would be too much to hope for any precise holding on these questions, but statements are found in the decisions indicating that some weight is given to this matter. In speaking of assignments of future improvements, Justice Bradley said, "Where the inventor is connected in business with the party making such stipulation, or is interested in the profits arising from the business in which the invention is used, the arrangement seems to be altogether unobjectionable."[19] The opinion in *Wege v. Safe-Cabinet Co.*,[20] upholding an agreement, states "through the contracts Wege became pecuniarily interested in the company; both his salary as superintendent and the value of his stock were to be directly affected by the success of the business. It can hardly be doubted that in these circumstances it was competent for the parties to bind themselves. . . ." On the other hand, in the case of *Thompson v. Automatic Fire Protection Co.*[21] the contract to assign inventions made during employment was not held invalid because it was left to the employer to fix the employee's compensation for any invention made within the agreement. It is to be noted that introduction to the employer's trade secrets is closely analogous if not the equivalent of a high consideration;[22] also that, in appraising the consideration, facts as they appeared at the time of the execution of the contract rather than at some later date must be the basis.[23]

Are the courts influenced by the fact that the employee in question was hired mainly or entirely in some other capacity than would lead to invention? The argument against validity in such case might be that the employer, without any real expectation, such as would constitute an inducement for higher wages, that the employee would apply himself to the perfection of new developments, required an agreement to assign merely in order to pick up a windfall when the off chance occurred. There is no doubt that many companies require all their employees to sign such agreements. The writer has found no case where such an argument has been raised or discussed in connection with a validity contest, although the scope of employment question is perhaps

[19] Aspinwall Mfg. Co. v. Gill, (C. C. N. J. 1887) 32 F. 697 at 701.

[20] (C. C. A. 6th, 1918) 249 F. 696 at 704.

[21] (D. C. N. Y. 1912) 197 F. 750, affd. (C. C. A. 2d, 1914) 211 F. 120, 128 C. C. A. 22. See also Piggly Wiggly Corp. v. Saunders, (D. C. Tenn. 1924) 1 F. (2d) 572; Dry Ice Corp. of America v. Josephson, (D. C. N. Y. 1930) 43 F. (2d) 408; Consolidated Railway Electric Lighting & Equipment Co. v. United States Light & Heating Co., 77 N. J. Eq. 285, 78 A. 684 (1910).

[22] Hulse v. Bonsack Machine Co., (C. C. A. 4th, 1895) 65 F. 864.

[23] Goodyear Tire & Rubber Co. v. Miller, (C. C. A. 9th, 1927) 22 F. (2d) 353; Dry Ice Corp. of America v. Josephson, (D. C. N. Y. 1930) 43 F. (2d) 408.

the most important consideration in cases raising the issue of implied agreement to assign.[24]

Relief has been granted to an employee because he did not fully appreciate the significance of the terms of the agreement. The argument was raised without success in *Paley v. Du Pont Rayon Co.*[25] A bonus plan was referred to in the contract but its terms were not divulged. The court held that it was the employee's own fault that he did not understand the details of such plan, inasmuch as he made no inquiry as to the terms thereof. (The opinion indicated that a different result might have obtained had the employer refused to divulge the terms upon inquiry.) But in *Migel, Inc. v. Bachofen*[26] where royalties were the principal consideration for an agreement to assign future inventions, specific performance was denied when it appeared that there was no obligation on the employer to use the invention.[27]

What if, as is frequently the case, the terms of the contract are too broad to be valid but the specific invention which the employer seeks to have assigned under such contract is within the limits ascribed by public policy for assignable future invention? It is clear that if several areas are specifically enumerated, one of which is so broad as to be against public policy, another narrow enough to be valid, and the invention in question falls within the scope of the valid area, the courts will ordinarily hold the contract to be divisible and uphold the valid part of the agreement.[28] It is also clear that the court will if possible construe the contract as severing the different areas.[29] The difficult question arises when the language itself is indivisible. Will the courts then enforce so much of the area covered as is reasonable? No cases on this point have been found in connection with assignment contracts. There is a modern tendency, however, in the field of covenants in restraint of trade, to enforce the agreement so far as it is reasonable, rather than to hold the whole agreement void.[30] It would seem that these cases (agreements not to compete in given areas) are closely analogous to assignment of future invention cases, and could be cited as authority for enforcing an agreement to assign future inventions when the invention in fact falls within a reasonable area.

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[24] 39 C. J. 128-131 (1925).

[25] (C. C. A. 7th, 1934) 71 F. (2d) 856.

[26] 96 N. J. Eq. 608, 126 A. 396 (1924).

[27] It appeared that the employer intended to prevent rather than enjoy the use of the invention in question. See also Gillette v. Metzgar Register Co., 243 Mich. 48, 219 N. W. 644 (1928), where rescission was granted on similar grounds.

[28] Guth v. Minnesota Mining & Mfg. Co., (C. C. A. 7th, 1934) 72 F. (2d) 385.

[29] Id.; Trenton Potteries Co. v. Oliphant, 56 N. J. Eq. 680, 39 A. 923 (1898); Fleckenstein Bros. Co. v. Fleckenstein, 76 N. J. L. 613, 71 A. 265 (1908).

[30] Hill v. Central West Public Service Co., (C. C. A. 5th, 1930) 37 F. (2d) 451; Edgecomb v. Edmonston, 257 Mass. 12, 153 N. E. 99 (1926).