Right of Employees to Royalties Related to Service Inventions

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At the beginning of February 2010, the Committee for Compensation and Royalties, nominated according to the Israeli Patents Law, 5727-1967, rendered a decision in a case of first impression in the matter of *Actelis Networks vs. Yishai Ilani* (the "Decision"), relating to the rights of employees to receive compensation for exploitation by their employers of their service inventions

"Service Inventions," according to the Israeli Patents Law are inventions that meet two conditions: (a) they were created as a consequence of the service provided by the employee to the employer; and (b) during employment. According to the Patents Law a service invention is the property of the employer unless the parties agreed otherwise. In the event that there is an agreement between the parties, the provisions of the agreement will prevail over the statutory arrangement. The law further provides that an employee is entitled to royalties for a service invention that has become the property of the employer.

The Decision deals with a situation where the employee signed an agreement whereby the title to any invention he made is transferred to the employer. In the Decision, a doubt was cast as to whether a provision in an agreement, whereby the employee waives its right to receive royalties, is enforceable.

Nonetheless, the Committee did not have to decide on this question, as it held that the provisions in the specific agreement at issue that addressed the transfer of the employee's rights in the service invention to his employer, did not include a waiver of the right to royalties. It held that such waiver, to the extent enforceable, must be made expressly.

In many employment agreements in Israel that address the question of service inventions, the issue of waiver of the right to receive royalties is not addressed at all (this issue arises sometimes in due diligence proceedings prior to the acquisition of technology companies). Therefore, this Decision may require companies to review their employment agreements with respect to obligations regarding compensation to employees for their service inventions.

THE COMMITTEE'S DECISION

When a dispute arises between an employer and an employee regarding compensation to the employee for a service invention, the employee or the employer may address the Committee for Compensation and Royalties established under the Patents Law. In the present case, the employee turned to the Committee in an application to determine the compensation to which he was entitled for his contribution to an invention of a company, when there was no dispute regarding the fact that the invention, which was related to his work, was invented while he was employed by the company, and that the invention belonged to the company.

The key point in the present case was the existence of an agreement between the employee and the company, in which the employee transferred to the company all the intellectual property rights ("Assign and transfer..."), with respect to developments made during his employment with the company. The company filed a motion to dismiss the employee's application based *inter alia* on the argument that the rights to the invention were transferred to the company by the employee in accordance with the agreement between them.

According to the Compensation and Royalties Committee's Decision, which was rendered within the framework of the motion to dismiss, the waiver of the employee in the employment agreement of intellectual property rights does not entail a waiver of the right to receive compensation for contributing to an invention.

In other words, the Committee distinguished between the transfer by the employee of the title in the invention (there was no dispute that it belonged to the company) and the entitlement to receive compensation, which the employee never waived. According to the Committee "*such a waiver of a statutory right must be made expressly in the agreement. Since it was not expressly indicated in the agreement that the rights thereby also include compensation for service inventions (for example, by way of a reference of Section 134 of the Patents Law), these provisions cannot be viewed as a waiver of rights deriving from the existence of a service invention which was developed by him during the course of his employment with the company*."

As noted above, an interesting point, which was left undecided by the Committee, is the question whether an employee can waive the right to receive compensation for service inventions in an employment agreement with the employer since, according to the Committee's Decision, it is possible that this is a non-waiver right, as it constitutes part of the protective Labor law.

Now the Committee must continue the hearing of the case (in chief) and decide, amongst other things, the amount of compensation, while implementing the principles provided in the Patents Law. We shall monitor the developments of this case in future circular letters and provide updates accordingly.

CONCLUSION

The new Decision raises a need for re-examination of employment agreements signed by new employees, and to the extent needed, for amendment of current employment agreements, in a manner that would accommodate the ruling of this new Decision.

Authors:

Adv. David Gilat, Patent Attorney

Dr. Yoav Oestreicher, Adv.

Gilat, Bareket & Co., Attorneys At Law
info@gilatadv.co.il, www.gilatadv.co.il

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