

# Employee Inventions Can Be Revenue Sources

(Just Remember the Patents)

Henry Bell

**M**any of the inventions or improvements that government employees develop in their daily work can be patented and become sources of public revenues. In these days of tight budgets, an extra revenue source for a local government can spell the difference between service cutbacks and expansions. But, to tap this source of funding, inventions must be properly protected. Just as important, ownership rights to these inventions must be clearly specified.

## **Why Protection?**

Patents cover virtually anything created by the human mind. Traditionally, patents have covered machines, products, processes, and chemical compositions like pharmaceuticals. Recently, however, patent protection has been extended to computer software and Internet business methods.

According to David Radack, intellectual property attorney at Eckert Seamans Cherin and Mellott in Pittsburgh, Pennsylvania, a local government must act promptly to patent an invention or it will forfeit its rights. "If an employee invents a new process, and if that process is publicly available, a patent application must be filed within one year of the first date on which the process was made public," says Radack.

"After that date, the invention is considered to be in the public domain and not patentable."

The key to any successful patenting program is early disclosure of the invention to the proper supervisory personnel and a quick decision on whether to apply for patent protection.

"A government entity can't protect an invention unless the employee who invented it alerts management," says Philip Lam, deputy city attorney for the city of Los Angeles, California. "Management has to develop an organizational culture with a high awareness of intellectual property. Governments are protective of their tangible property, but they too often ignore the wealth of intangible and intellectual property at their disposal."

Lam recommends an employee education program, including new employee orientation on basic intellectual property rights and the local government's intellectual property review protocol. A customized intellectual property review process can help provide legal protection. A review committee of managers, engineers, and attorneys can be established to review employee inventions and decide which ones to patent.

To prepare and file an application, a government agency can rely on a patent attorney or patent agent. Be aware that professionals with a science and law background must pass a special bar examination (for patent attorneys, this is in addition to the state bar examinations required of all attorneys) to be admitted to practice before the U.S. Patent and Trademark Office.

The patent application process can be lengthy and expensive. Patenting an invention typically costs several thousands of dollars and can take up to three years. "Not all inventions are worth this time, effort, and money," says Radack. "But some are, and if this process is not carried out, a local government may find that the invention in which it invested employee time and resources is being sold for a profit by a commercial entity.

## **E**mployee inventions can be sources of new revenue if a local government has protected them and established clear ownership up-front.

Then it's too late."

A validly issued patent can stop others from making, using, or selling the invention it covers. More important for local governments, the patent can be sold outright or licensed to produce a long-term revenue stream. Revenues from license fees and sales can be sizable.

### **Patent Examples**

Government entities hold patents for an array of inventions from varieties of flowers and trees to sewer pipe cleaning devices, environmental monitoring methods, and waste container lids. Only a few have attempted to determine if they have a commercial value, much less commercialize them.

- Los Angeles, California, holds patents on inventions by the department of water and power employees. It has licensed its newest patent, a manhole restraining system that protects people and property from underground utility line fires and explosions. The department also is open to licensing such other patents as a remote electro-optical sensor system for water quality monitoring and electrically powered low-noise leaf blower technology.
- Milwaukee, Wisconsin, recently received a patent on a distinct green and gold coleus plant bred by its

forestry division that it plans to license to plantsmen.

- St. Petersburg, Florida, holds a patent on a decorative waste container developed by sanitation department employees. The city enjoys modest royalties from a manufacturer who produces and markets the containers nationwide.

If a local government has a significant portfolio of marketable patents, it may make sense to set up an internal technology transfer function to approach manufacturers and negotiate licensing deals directly. Alternatively, it can rely on a consultant to help find a manufacturer to make and distribute an invention. "A large number of invention promoters, especially those advertising on the Internet, are charlatans," warns Radack. "A local government should do a thorough background and reference check before signing an agreement with an outside agent."

To enjoy the revenue from an invention, a government entity must obtain the rights from the employees and consultants who devised them. "Private sector corporations have long required new employees to sign agreements assigning patent rights for anything the employees may invent within the scope of their employment," says Radack. "These agreements were regarded as conditions of employment."

The story of Cocoa, Florida, exemplifies what could be at stake if a government fails to take this step. Employees at a city water treatment plant invented a breakthrough technology for removing the sulfur odor from local drinking water, but the city failed to obtain an exclusive patent, even though the invention was made by city employees. After a three-and-a-half-year court battle, the city still does not have exclusive rights to the invention and is missing out on lucrative licensing fees estimated at as much as \$300 million.

To ensure that they own employee and consultant inventions, localities should make a new employee or consul-

tant sign an agreement at the time of hiring that the government owns all inventions created by that employee or consultant. This is the safest and easiest way to secure the inventions. If current consultants have not signed an agreement, the local agency using their services should get one signed immediately.

Current employees require a different approach. "The law prohibits assignments of rights to inventions by current employees without a consideration," says Radack. Valid consideration is usually a change in responsibilities coupled with a pay raise, i.e., a promotion. Upon promotion, current employees can be required to sign assignment agreements.

Who should sign these agreements? According to Radack, every employee should, because a janitor or a beginning file clerk may be as likely to come up with a great invention as an (unmotivated) engineer. "At a minimum, says

### What to Do

What should governmental entities do to ensure that they own employee and consultant inventions?

- Have any new employee or consultant sign an agreement, upon starting employment or consultation, that the government agency owns all inventions made by that employee or consultant. This is the safest and easiest way to secure the inventions.
- If a current consultant has not signed an agreement, get one signed now.
- Current employees require a different approach. The law prohibits assignments of rights to inventions by current employees without a "consideration." Valid consideration usually is a change in responsibilities coupled with a pay raise, i.e., a promotion. Upon promotion, current employees can be required to sign assignment agreements.

Radack, "any employees working in technical fields or holding creative positions should be obliged to sign these agreements."

Employee inventions can be sources of new revenue if a local government has protected them and established clear ownership up-front. In addition to the value of this revenue enhancement, a policy of rewarding and recognizing employee innovation can have a positive effect on morale. These benefits arise only when an effective patent policy is in place.

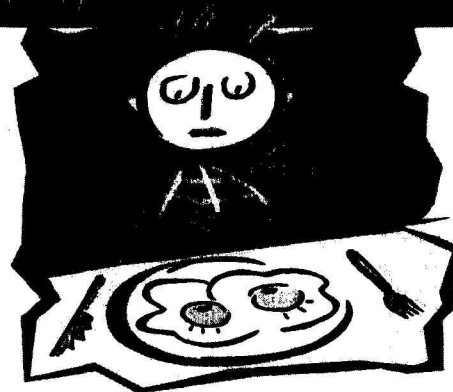
This policy also demonstrates good stewardship of public funds. According to Lam, "A local government has an obligation to protect the public's investment in the employee's time and local government resources by securing intellectual property rights." **ENR**

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