



## FBC Legal Update - Intellectual Property

May 2014

### Latest developments regarding Service Inventions

Dear Clients,

On May 4, 2014 the Commission for Compensation and Royalties of the Israeli Patent Authority (the "**Commission**") rendered a decision relating to an employee's request to receive royalties for service inventions (the "**Decision**").

The Decision reduces the uncertainty that had surrounded the nature of an employee's right to receive royalties for service inventions, and provides important guidelines for examining employee royalty waivers in agreements between employers and employees.

#### **General Background**

Section 132 of the Israeli Patent Law, 1967 (the "**Patent Law**") provides that apart from certain exceptional cases, an employee's invention that was developed within the scope of and during his employment (a "**Service Invention**") will be the property of his employer. Nevertheless, the employer's proprietary ownership does not necessarily impinge upon the right of the employee to enjoy the economic benefits derived from his invention.

In this regard, Section 134 of the Patent Law provides that:

**"In the absence of an agreement that prescribes whether, to what extent and on what conditions the employee is entitled to remuneration for a service invention, then the matter shall be decided by the [Commission]."**

#### **The Ilani and Beyer Cases**

In two recent cases, the Commission and the Supreme Court considered two different but related issues relating to this provision. The first issue is whether the employee's right to royalties is mandatory. Is this right afforded to an employee by virtue of protective labor laws, and as a result, may not be waived by the employee? Alternatively, is this a dispositive right, which although non-transferable and non-assignable, may be waived by the employee?

The second issue concerns the authority of the Commission to make decisions on claims for royalties. As the statutory language states that such authority arises "in the absence of

an agreement", is the Commission authorized to intervene where there is an agreement between the employee and the employer in which the employee waives his right to receive royalties?

In its February 2010 decision in the case of **Actelis Networks vs. Ishai Ilani**, the Commission discussed, for the first time, the possibility that the right to receive royalties under Section 134 of the Patent Law is a mandatory right, but left the question without a clear answer. Nevertheless, the Commission held that even if the employee may waive this right, the waiver is required to be explicit (for example, by referencing Section 134 of the Patent Law), and that general provisions assigning Service Inventions to the employer do not preclude the employee's right to royalties.

Following this decision, in 2011 the Supreme Court issued a ruling in CA 3564/12 **Beyer vs. Plurality Ltd.** The ruling followed the Commission's decision, reiterating the possibility that the right to royalties is mandatory, but again, left this question without a clear response. Additionally, the Court stated that even if the agreement between the parties precluded the employee's right to royalties, this does not necessarily mean that the employee may not request the Commission to award him royalties. Moreover, the Court held that the Commission is authorized to decide on disputes regarding compensation for Service Inventions, including disputes concerning the validity and meaning of the agreement between the parties.

The combination of these two decisions has created considerable uncertainty, particularly among companies in technology-based industries. These decisions suggested that the general disclaimers and assignments on which companies had historically relied may be inadequate, and that R&D employees may have legal grounds to appear before the Commission and demand additional consideration in respect of their contribution to R&D efforts, even if they had previously signed waivers.

In view of the uncertainty that they created, these decisions were subject to considerable criticism, both for the legal analysis upon which they were based, as well as for the commercial risks they imposed on technology companies, whose businesses are based on the employment of workers for the development of new inventions.

### **The Decision**

The Commission's Decision, rendered several days ago, clarifies the Ilani ruling, and reinstates the rule that had been in place prior to that ruling. The Commission explicitly states that its view, based on an analysis of the statutory language and underlying purpose of Section 134, is that **the right to royalties under the Patent Law is not a right derived from employment relations requiring special protection, and accordingly, may be waived by the employee.**

The Commission held further that while the ruling on the need for an explicit waiver of

the right to royalties under Section 134 of the Patent Law was suitable in the special circumstances of the Ilani case, **that ruling does not require that any waiver of the right established by Section 134 be explicitly referenced in the agreement. In this regard the Commission states that "the waiver agreement can become crystallized like any other normal contract in writing, orally or by conduct" in accordance with general provisions of Israeli contract law, and that the Commission should assess whether a waiver was granted by interpreting the provisions of the parties' agreement.**

In the particular case addressed in the Decision, the documents signed by the parties included "final account" documents that were signed by the company and the employee following the end of each of the two periods of his employment with the company. In these documents the employee stated that upon receipt of the severance pay and provident funds which had been deposited in his name, he would not have any financial or other claims against the company. The Commission determined that the general language in the "final account" documents indicated the clear and unequivocal intent of the parties to prevent the employee from retracting his consent and from suing retroactively for royalties for his contribution to the Service Inventions. The Commission held that the general language should not be interpreted to exclude the waiver of royalties under Section 134 of the Patent Law, even if the employee was not at all aware of this right when signing these documents.

### **Summary**

The Decision is good news for technology companies, as it restores the right to receive royalties for Service Inventions pursuant to Section 134 of the Patent Law to its natural place – the contractual relationship between the employer and the employee, as it is interpreted by the courts and the various judicial tribunals according to the standard rules of interpretation of Israeli contract law.

We would emphasize, however, that the Decision does not change the previous rulings regarding the Commission's authority to decide on disputes regarding an employee's right to receive royalties where an agreement between the parties precludes the employee's right to receive royalties; nonetheless, it provides a clear indication of the Commission's position regarding the waivers in such agreements.

**For further information about this communication, please feel free to contact Amit Dat or Yael Riemer of FBC's Intellectual Property practice group, or your regular FBC contact.**

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