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Patent Royalties Committee Issues Important New Ruling on Service Inventions

Over the last four years one of the main issues which has preoccupied the Israeli technology sector has been whether employees may waive the alleged right to receive compensation for service inventions, and, if so, what are the requirements for such a waiver to be valid. A “service invention” is defined in Article 132 of the Israeli Patents Law as an invention of an employee created “in consequence of his employment and during the period of his employment”.

This issue of the right to receive compensation for service inventions first surfaced in the February 2010 decision of *Actelis Networks vs. Ishai Ilani*. In that case, an employee filed a claim with the Committee for Compensation and Royalties (the “Committee”), a body established under the Patents Law. He demanded compensation from Actelis, his former employer, for a service invention he created while an employee of Actelis. Actelis moved to dismiss the claim, but the Committee rejected Actelis’ claim, stating that the employee’s alleged right to compensation might be one that is part of the protective labor laws and thus not waivable by the employee (the Committee did not actually decide the issue at that time). In addition, the Committee held that even if the employee could waive the alleged right to compensation, such waiver had to be explicit (for example by referring to Article 134 of the Patents Law in the employment agreements).

Due to the Committee's decision in *Ilani*, there was great uncertainty in the high-tech sector regarding both the scope of an employee’s right to compensation for service inventions, and whether this right could be waived. The decision led to many employers amending their standard employment agreements. More importantly, many investment and M&A transactions encountered difficulties due to the lack of certainty that *Ilani* created.

The New Decision

On May 4, 2014 the Committee decided a case that changes the landscape dramatically. In this important decision, published under the name **Anonymous vs. Company Ltd.** due to redacting the names of the parties, the Committee clarified for the first time many of the issues left hanging from *Ilani*.

1. *Right to Compensation is Waivable*. First, the Committee removed the uncertainty as to whether an employee could waive the right to compensation for service inventions. It established clearly that an employee may waive such right under Article 134 of the Patents Law. According to the Committee, "[t]he right is not a social benefit derived from employer-employee relationship which deserves special protection."
2. *Waiver Need Not Reference Article 134*. The Committee held that a waiver of the right to compensation upon termination of employment did not need to explicitly reference Article 134 of the Patent Law. The Committee clarified that a waiver can be formed like any other contract—in writing, orally or by conduct, in accordance with Section 23 of the Contract Law (General Part), 1973. The main question in every case will be the interpretation of the agreement, in accordance with the rules set forth in Section 25 of the Contract Law.
3. *General Rules of Contract Interpretation*. The Committee said that both the language of the waiver, as well as the intent of the parties, had to be reviewed. The Committee said it would examine, in each case, the intent of the parties within the framework of the specific agreement. When the parties sign a termination agreement that includes a waiver of all future claims by the employee, and the intent of the parties is to end their relationship and preclude any future litigation, this waiver should be upheld. When the waiver is general and prospective (for example including a phrase like, "I will not have any claims"), then even for claims that do not yet exist, the waiver should be effective. This is also applicable to waiving a right to compensation, even though it may only ripen in the future.
4. *Waiver Not an Unconscionable Provision in a Contract of Adhesion*. Lastly, the Committee rejected the argument that a waiver in an employment agreement was an unconscionable provision in a contract of adhesion. In fact, it held that the Committee lacked the authority to decide this question.

Recommendations:

In light of the above decision, we recommend the following actions:

1. *Employment Agreements*. We recommend employers continue including sections which provide for both the assignment to the employer of all the employee's proprietary rights in inventions, and the employee waiver of any economic right to compensation for such inventions (other than the compensation included in the employment agreement itself). Employers should continue to reference Article 134 of the Patents Law in the waivers included in employment agreements. We would emphasize that an assignment clause is not sufficient; there must be a clear and

explicit statement stating that it is the intention of the parties that the employee will not have any right to compensation or royalties for these inventions.

2. Releases Upon Termination. Upon the termination of employment, we recommend having an employee sign a general waiver and release by which he or she waives all claims or demands, monetary or otherwise, against the employer. Such a waiver is essential when the employee has not agreed to waive compensation under Article 134 in his or her employment agreement. The waiver should be drafted broadly in order to include claims under Article 134 of the Patents Law. The question whether to include in the employment termination waiver a specific section relating to Article 134 is for the most part a tactical one. Of course the inclusion of an explicit waiver is always desirable, but requesting it may invite an unwanted negotiation with the employee. In that context, it must be remembered that an employee is not obligated by law to sign such a waiver.

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