Perspective patronale en droit de l'emploi et relations de travail
Labour and Employment Law for Employers
Emond Harnden LLP

Independent contractor's invention owned by company, Court of Appeal rules

In a decision released on October 1, 2001, *Techform Products Limited v. Wolda*, the Ontario Court of Appeal has ruled that an invention developed by an independent contractor on his own initiative is owned by the company for whom he worked as a consultant. This result was due to the existence of an "employee technology agreement" executed by the company and consultant, under which the consultant agreed to assign all rights to any inventions the consultant conceived or made while in the employ of the company.

The consultant, Tiete Wolda, had been with Techform as an employee for eight years when, in 1989, he resigned and became a consultant retained to work on "special projects". The agreement under which Wolda became a consultant could be terminated by either party on 60 days' notice. It was silent on ownership of inventions.

EMPLOYMENT TECHNOLOGY AGREEMENT

In 1992, Techform decided to require that Wolda enter into the employment technology agreement (ETA) after it learned that Wolda had developed a hinge called the "Boxless Hinge" without the knowledge of management. Under the ETA, Wolda assigned all rights in any of his inventions to the company. Wolda was unhappy about signing the agreement, but believed that he had little choice, as Techform was prepared to terminate his contract on 60 days' notice if he refused.

Matters came to a head in 1996 when Wolda developed a new invention, the "3D Hinge", again without having been assigned to do so by the company, although Techform employees assisted in refining the design. Wolda believed he should be compensated for assigning the rights to the 3D Hinge to Techform, and asked that his hourly rate be increased and that two cents for every hinge sold be paid to a particular charity. Relations deteriorated between Wolda and Techform, and the latter terminated Wolda's employment and went to court requesting a declaration that it was the owner of the 3D Hinge.

At trial, Techform lost its bid for the declaration of ownership. The trial judge held that Wolda was an independent contractor and that, absent an agreement to the contrary under the ETA, he was the owner of the 3D Hinge. Turning to the effect of the ETA, the trial judge held that it was not binding on Wolda, because it did not provide any consideration (*i.e.*, something of value) to Wolda, and had been entered into by Wolda under duress.

CONTINUED EMPLOYMENT AND CONSIDERATION

This ruling was overturned by the Court of Appeal. On the issue of whether the ETA provided any consideration to Wolda, the Court held that, in some cases, a promise by an employer not to exercise its right to terminate an employee on notice can constitute

consideration. If the employer has formed an intention to dismiss an employee, and promises not to so for a period of time if the employee signs the agreement, then the employer's promise is valid consideration. By contrast, the Court stated:

> "[w]here there is no clear prior intention to terminate that the employer sets aside, and no promise to refrain from discharging for any period after signing the amendment, it is very difficult to see anything of value flowing to the employee in return for his signature. The employer cannot, out of the blue, simply present the employee with an amendment to the employment contract say, 'sign or you'll be fired' and expect a binding contractual amendment to result without at least an implicit promise of reasonable forbearance for some period of time thereafter."

In Wolda's case, the evidence showed that Techform did intend to terminate Wolda if he refused to sign. Further, Techform must be taken to have implicitly promised to keep him on for some time afterwards. This promise was fulfilled, as Wolda remained with Techform for a further four years. Therefore, the Court held, the promise not to give Wolda 60 days' notice of termination did constitute something of value going to Wolda.

LEGITIMATE PRESSURE

The Court also disagreed with the trial judge that the Wolda had signed the ETA under duress. Duress may be found if the pressure used is not accepted by the law as legitimate, and it is applied to an extent that the person has no choice but to accept. The Court found that the trial judge had considered only whether Wolda had a choice, but not whether Techform's pressure was legitimate.

The Court held that it was, citing Wolda's status as an independent contractor, the fact that he was given the opportunity to seek legal advice before signing, and Techform's *bona fide* belief that it was the owner of Wolda's inventions. The mere fact that, in the absence of the ETA, Wolda would have been the owner of his inventions did not make Techform's demand that Wolda sign illegitimate, the Court stated.

In Our View

It may be no simple task to distinguish instances in which an offer of continued employment is valid consideration from those where it is not. Therefore, to ensure the validity of the contract, employers confronting the situation faced by Techform are advised to offer something of value, such as an improvement in salary, in addition to the promise not to terminate the other party's employment. Otherwise, the employer will have to establish 1) that it had a real intention to terminate the employee if the employee did not sign the agreement, and 2) that it will forbear from terminating the employee for a reasonable period of time if the employee signs.

In any event, the key message from this case is that terms such as those contained in the ETA should be placed in employment or consultancy contracts at the time of hiring. That way, the issue of whether continued employment is valid consideration will not arise.

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