

## Employee-Created Intellectual Property: Securing Ownership Rights

Structuring Assignment Agreements and Third-Party Contractor Agreements, Navigating Carve Outs and Preexisting Obligations

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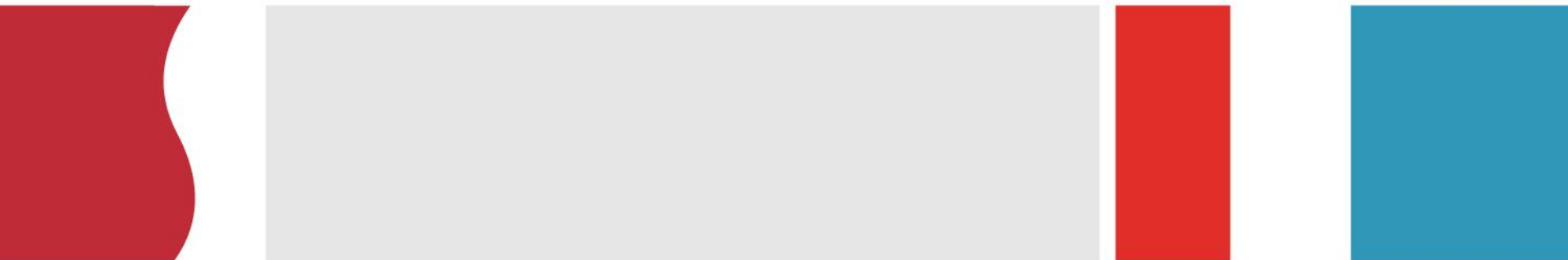
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# Employee-Created Intellectual Property: Securing Ownership Rights

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## Agenda

- 1. How do patents, copyrights, and trademarks vest in their respective owners?**
- 2. What special concerns arise when the intellectual property is created by an employee?**
- 3. What special concerns arise in the context of a corporate acquisition, merger or other commercial transaction?**
- 4. How do these issues affect registration?**

## For Your Consideration

- **John created a software program for medical scanning for a business he wanted to start. He also developed a clever trademark for this new company.**
- **John brings in two friends, Sam and Kevin, as co-founders, they each invest \$30,000 and they form ABC, Inc. After the formation of the company, Kevin, who is an engineer, develops a unique device that incorporates the software but also performs other functions that have never been done before with medical scanning. Al is in charge of marketing.**

## For Your Consideration (Continued)

- **A year into the venture, John discovers that AI has been over charging customers, but telling John and Kevin that there are no sales and pocketing the money.**
- **The company is about to close and John and Kevin are most concerned about the ownership to the IP they created.**



Copyright vests in the creator of the work.

## EXCEPTIONS:

1. Employees. All works created by employee in scope of employment belongs to employer. No need for assignment.

Who is an employee? Look at economic reality of situation. Labels not determinative.

2. Work for Hire. Specifically commissioned in writing before work commenced and is for one of the following:
  - a translation
  - a contribution to a motion picture or other audiovisual work
  - a contribution to a collective work (such as a magazine)
  - an atlas
  - a compilation

- compilation of educational materials
- a test
- answer material for a test, or
- a supplementary work (i.e., "a secondary adjunct to a work by another author" such as a foreword, afterword, chart, illustration, editorial note, bibliography, appendix and index).
- Note: computer software, photographs, computer application, or even an article or book are NOT in this list.

- Benefits of Work for Hire:
  - Longer term of Copyright.
  - Copyright vests in company and therefore cannot be terminated 56 years hence
- Use alternative language.
  - Parties agree is work for hire but if not A hereby assigns to B all copyright including the right to sue for past infringement.

# Special Considerations In Due Diligence

- Target used outside company to create software code. Outside company signed work for hire agreement with appropriate assignment language.
  - Did Target use independent contractors? If so, did they acquire necessary rights? And did their assignment to Target include those rights?

# Copyright is a Bundle of Rights

- Right to copy, distribute, perform, display, and create derivative works,
- Each right can be owned separately.
- The owner of an exclusive right has standing to sue but cannot assign simply the right to sue.
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- As a result, ownership of copyright in many types of works is very tangled.

E.G. For a movie, rights to script, to master, right to distribute, right to make derivative work, rights to music (lyrics, songs, arrangements), choreography.

## Joint Authorship

- When two or more authors contribute independently copyrightable elements to a work then they are both joint authors in the works.
  - Distigusi vesting from agreement.
    - Contract should memorialize understanding as to how rights should vest but then confirm through assignments that this is the result.
- Joint authors each have right to use or license use of the work subject to a duty of accounting.

# The Copyright Office and Registration

- Registration is not required for copyright.
  - Is necessary to bring claim and has many other benefits
- Copyright Office makes difficult to determine owner of particular work.
  - Client wanted to use clip from game show from 1950s. Registered to CBS but assignment to small production company no longer in business. No record of bankruptcy.
    - Orphan work problem.



# Security Interests

- For registered copyrights, must be filed with Copyright Office
- For unregistered copyrights, must be registered with County Clerk in principal place of business or residence of owner.
- **BUT WHAT DOES SECURITY INTEREST IN COPYRIGHT GET YOU?**

## Termination of Copyright Assignment or License

- Copyright law allows author to terminate any assignments or licenses in the 56<sup>th</sup> year of copyright.
- Relevant if acquiring copyright to evaluate termination scenarios.

# How the Law Protects the Uninformed

- Many times company will not realize that hiring photographer to take photos of buildings does not mean they own the photos.
- Law implies limited license to use the works for purpose they were commissioned.
- Trend today is to insist on ownership of all photographs as opposed to licensed use.

# Special Considerations

- Software programmer designs custom app. Client wants ownership of app.
  - Programmer will always claim rights in his “toolkit”
- Joint Venture: Who will own copyright after end of joint venture?
  - Joint venture between software programmer and design artist to make screen savers. To avoid “dispute” they agree that JV will own copyright.
    - JV goes out of business but then programmer starts to make copy of the screen savers. Can design artist stop him?

# Copyright In Infringing Work?

- Copyright vests in creator.
- Copyright gives owner exclusive right to make derivative work.
- But an unauthorized derivative work is still owned by the infringer.
  - Settlements must include assignments of infringing works to avoid claims of reverse infringement!



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November 23, 2015

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# Employee Assignment Agreements

- A (human) inventor owns her invention at the moment of discovery
- In the US, only humans invent, individually and in groups
  - 35 U.S.C. §101: “Whoever invents or discovers . . .”
  - 35 U.S.C. §102: “A person shall be entitled to a patent . . .”
  - 35 U.S.C. §111: “An application for patent shall be made . . . by the inventor . . .”
  - 35 U.S.C. §115: “An application shall include . . . The name of the inventor . . .”



# Employee Assignment Agreements

- Naming the real inventor(s) is a condition of a valid US patent
- Why? History and policy.
  - Inventors are legally obliged to disclose known prior art to the Patent Office
  - Inventors can be deposed in litigation over patentability issues, and can't be concealed by mis-naming inventors
  - This is NOT internationally uniform
  - Be aware of different norms, not just laws, especially among foreign subsidiaries

# Employee Assignment Agreements

- Ownership must be transferred in writing
  - 35 U.S.C. §261: “Patents shall have the attributes of personal property . . .”
  - 35 U.S.C. §261: “Applications [and] patents, or any interest therein, shall be assignable in law by an instrument **in writing** . . .”
  - Beware of joint ownership: Every party owns all of it with veto and license rights.
  - 35 U.S.C. §262: “In the absence of an agreement to the contrary . . .” each joint owner has all the statutory rights of a patent.

# Employee Assignment Agreements

- Only owners or exclusive licensees (in writing) can sue for infringement
  - Article III Standing to sue
  - Protects courts and defendants against multiple litigation
  - Protects defendants against double recovery
  - If you didn't get an assignment in writing from your employee, you can't sue
    - The Patent Act helps with non-cooperative inventors
  - If you can't sue, you have nothing of value
  - Due diligence prices it accordingly – discounted value

# Employee Assignment Agreements

- State law governs ownership (sort of)
- Employment contracts often transfer patents with language from Federal Circuit case law:
  - “I will assign anything I come to invent while employed”  
- OR -
  - “I hereby assign anything I will invent during the course of my employment”
- One creates equitable interest, the other legal interest
- Only legal interest gives standing

# Employee Assignment Agreements

- The patent “magic words” come from Federal Circuit cases but are governed by state law.
- State law governs whether an employer was allowed to use them; for now federal law governs the effect of the words.
- Watch out! The “magic words” federal rule is being challenged and may not last!
- Why is it Federal Circuit law? Because it arises in patent cases when standing to sue is challenged.

# Employee Assignment Agreements

- Governed by state law, but . . .
  - Most states require compensation to take property from employee
- How do you pay for it?
  - Have the clause in the employment contract when the employee starts work
    - OR –
  - Pay a bonus, salary increase, other additional comp to add it later.
- In many states, continued employment is NOT sufficient: you can't change the contract mid-employment to add assignment for existing inventions, in some states that is true for adding future inventions.

# Third Party Contractor Agreements

- Same Major Rule Set
- Owned by inventor, assigned in writing, governed by state law
- Still has to be paid for
- Contractor agreements usually present more questions about what you are buying than do employment agreements
  - Employee: buying all invention related to employer's business
  - Contractor: buying specific IP related only to scope of contracted work
  - Broad, generic language less often applicable
    - Negotiated to more narrow terms by third party
    - Risk of unenforceability under state law

# Third Party Contractor Agreements

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- Patent ownership and assignment more likely explicit
- Specific transfer of ownership of inventions
- Specific identification of subject matter of transferable inventions
  - Contract often has a general set of terms
  - IP transfer often found in attaches SOW, Product Schedule, Description of Services, etc.



# Third Party Contractor Agreements

- Typical drafted default contracts point to an Schedule A for patents
  - But Schedule A is too often blank
- Contracts have broad governing provisions and periodic SOWs
- Later signed SOW – even email – can override initial docs as to specifics
- Clients rarely call back for legal review of SOW
- Thus, the default structure is important

# Third Party Contractor Agreements

- How are patent and IP issues addressed before contract execution?
  - Fully vetted and negotiated
  - Completely ignored
  - Punted – either explicitly or they appear to be vetted but are not really
- Three broad reasons:
  - Business case has no patent issues, but both sides have lots of IP
  - No one has patents, and none are anticipated
  - Business case has patent issues, but can't be resolved before execution

# Third Party Contractor Agreements

- Contract usually incorporates SOW by reference
  - Future SOW will often override current contract terms in case of conflict
  - How many clients call back for legal review of each SOW?
- Understanding business background should set contract defaults
  - Performance in many phases of different subject matter
  - Performance with phases in different jurisdictions
- Make a mechanism for patent assignment that can't be overridden, or attempts to force negotiation

# Third Party Contractor Agreements

- Suggested Default Structures: Business case has no patent issues, but both sides have lots of IP
- Say that! Default that each side owns its own patents, pre-existing and future
- Use the contract to secure licenses for any patents the contractor uses in the rendered service or final work product
- Don't allow SOW override; change requires separate writing specifically on topic

# Third Party Contractor Agreements

- Suggested Default Structures: No one has patents, and none are anticipated (software start-up writing code)
- Hard to convince a client this matters: so have a good default contract you use
- Use reasonable terms or risk unenforceability
- Require assignment of patents related to scope of work if they arise
- Require license to patents necessary to secure benefit of work
- Don't allow SOW override; change requires separate writing

# Third Party Contractor Agreements

- Suggested Default Structures: Business case has patent issues, but can't be resolved before execution
- Not a bad thing – don't necessarily hold up contract over this
  - Parties know that patentable material might arise, but not sure how
  - Patents might arise depending on later performance, e.g., later SOW
  - “Fourth party” rights, e.g., federal government
- Recite initial ownership defaults where known
- Allow SOW override
- Train your client!

# Carve Outs And Pre-Existing Obligations

- Too often overlooked
- No one considered the past at the outset of relationship
- Model contract has a form for listing IP but “Schedule A” is blank
- The more experienced and qualified the employee or contractor, the more important the issue

# Carve Outs And Pre-Existing Obligations

- When hiring an employee, identify pre-existing obligations
- Pre-hiring review is hard when hiring from a competitor – don't ask her to violate confidentiality obligations to current employer
- Once hired, confirm with prior employer if possible
- Have employee identify subject matter of potential concern as early as possible, in as much detail as possible
- Have new employee execute assignments, etc. to former employer ASAP – clear the decks
- All this avoids “blank Schedule A” problem



# Carve Outs And Pre-Existing Obligations

- Independent contractors are easier (in theory)
- The reason to hire them and the scope of work should clarify pre-existing rights
- Hired for expertise – contractor owns what it brings to the table
- Hired to work on a specific project – the hiring party then owns enough rights to use the resulting work product
- Recognizing this in advance helps avoid “blank Schedule A” problem

# Best Practices

- For employees: Systematize disclosure
  - Periodic disclosure from employees of what they are working on and developing
  - Systematically evaluate internally for filing patents, copyrights
  - Suitable rewards for success to encourage disclosure
- Inventor's notebooks for development and prior art knowledge
- Archive copies of documents evincing patent or other IP
- You also know already what you didn't care about when someone leaves

# Best Practices

- Finish all the paperwork when you file a patent application
  - “Missing parts” practice at the PTO allows omission of documents that prove title
- Best practice – and cheapest – don’t do it!
- Inventor’s oath and declaration, assignment to employer are all standard forms
- Complete them and file with the application
  - Does the company have a reward program that ‘pays’ for ownership transfer?  
Complete that, too and document it

# Best Practices

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- For contractors: don't close out a SOW until you identify whether anything was invented and who owns it.
- If the company owns new inventions, get the assignment executed
- Complete any license back, or any other transfer of rights contemplated in the contract and SOW

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