

CORPORATE COUNSEL

Lessons from Rock and Roll

If your company wants to own employee inventions, get it in writing.

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Sammy Hagar reportedly claimed that the lyrics for "Right Now" were the best he ever wrote for a Van Halen song. It's doubtful that Sammy was thinking about invention assignments when he penned the song, but the lyrics do offer spot-on advice for companies wanting to ensure that they own the patents containing employee inventions. You don't believe it? Listen up:

*Right now,
C'mon, it's everything
Right now,
Catch a magic moment, do it.
Right here and now
It means everything.
Miss the beat, you lose the rhythm,
And nothing falls into place, no
Only missed by a fraction . . .*

It's all there. To own the patents claiming employee inventions, a company should have an employment agreement with language transferring ownership of inventions "right now." The choice of language "means everything." Use the

right language, and the company can "catch a magic moment" in which title automatically transfers upon an employee's creation of an invention. Use the wrong language, and potentially "nothing falls into place"—the company may lack standing to sue or claim damages or its transaction could fall apart.

Let's break it down.

By default, "an individual owns the patent rights even though the invention was conceived and/or reduced to practice during the course of employment" (*Teets v. Chromalloy Gas*, 1996). The law, however, "allows individuals to freely structure their transactions and employee relationships. An employee may thus freely consent by contract to assign all rights in inventive ideas to the employer."

Not all assignments are created equal. You want an automatic assignment. Here's how it works: An assignment of rights in an invention before the invention comes into existence "may be viewed as

an assignment of an expectant interest" (*Filmtec v. Allied-Signal*, 1991). At that point, the company "holds at most an equitable title." The magic moment of an assignment in future inventions occurs once "the invention is made and an application for patent is filed." It's at this time that "transfer of title would occur by operation of law" and "no further act would be required" by the company or employee—legal title automatically passes to the company.

The key to creating an automatic assignment is choosing the right tense—present versus future—for the language in the employment agreement. Justice Stephen Breyer referred to these contractual provisions as "a technical drafting trap for the unwary" (*Stanford v. Roche Molecular*, 2011). But the trap is easy to avoid. The language "hereby grant and assign" creates a present tense, automatic assignment of legal title (e.g., *DDB Techs. v. MLB Advanced Media*, 2008). It also

can be important to define the scope of what is assigned. This may help avoid fights about timing and relatedness of the invention to the company's business (*Preston v. Marathon Oil*, 2012).

Companies, however, continue to miss out on the magic moment by using language that creates a promise to assign but does not transfer legal title, such as "will be assigned" or "agrees to assign" (*Abraxis v. Navinta*, 2010 and *Arachnid v. Merit*, 1991).

Problems in litigation or with a transaction can ensue if legal title to the patents-at-issue is not transferred automatically. First, without legal title, your company may not have standing to file a patent infringement lawsuit for damages. Standing is limited in patent cases: "Only a patent owner or an exclusive licensee can have constitutional standing to bring an infringement suit" (*Spine Solutions v. Medtronic Sofamor*, 2010). If legal title to the patent can be disputed because the employment agreement didn't include an automatic assignment provision, that's a potential problem. (See *Abbott Point of Care v. Epocal*, 2012, dismissing for lack of standing where agreements did not include appropriate assignment of inventions; and *Abraxis*; and *Arachnid* ["One seeking to recover money damages for infringement of a United States patent . . . must have held the legal title to the patent during the time of the infringement."])

Second, it is not difficult to imagine other problematic scenarios in litigation, such as a license defense, that are spawned by an employee-inventor leaving the company without executing an appropriate assignment (*Ethicon v. U.S. Surgical*, 1998).

Third, failure to have an automatic assignment may foul your licensing strategy or asset sale. Consider this scenario: Start-up Little Med hires engineers—Aaron, Amy, and Ann. This trio develops numerous inventions and becomes known as the A-Team. Big Med notices the A-Team's work and hires them away from Little Med. But Little Med isn't about to be squashed so easily. Little Med files patent applications for the A-Team's inventions while they were employees at Little Med. The patent office issues a number of patents to Little Med.

Little Med brandishes its new patents at Big Med. The two companies engage in discussions about Big Med buying Little Med, mostly for its patent portfolio. But Big Med's lawyers dig deep and find that the A-Team's employment agreements had the following assignment provision: "Employee agrees that all rights in inventions will be assigned by employee to employer."

The A-Team only agreed to a promise to make a future assignment, which was never executed. Little Med could file a lawsuit to try to force the A-Team to execute the proper assignment, but that would be a fight, and the

A-Team might argue that they didn't develop the inventions while at Little Med (*Rothschild v. Cree*, 2010—trial necessary to determine whether "the inventions were entirely conceived during employment at [company]").

Little Med missed its magic moment and may have to agree to a lower sale price. On the other hand, Big Med needs to ensure it is buying patents that Little Med actually owns.

Choosing the right patent assignment language doesn't have to be a trap for the unwary. Take Sammy Hagar's advice. Catch the magic moment by drafting your employment agreement's invention assignment provision in the present tense. Do it "right here and now."

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