IP News

DDB Technologies: Beware the IP Assignment Clause

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A recent case holds that the interpretation of patent assignment clauses in employment agreements is controlled by federal law, though most other clauses in these contracts are controlled by state law. *DDB Technologies L.L.C. v. MLB Advanced Media L.P.* (Fed. Cir. 2008). The Court also distinguished language that creates an automatic assignment of rights from language that merely *obliges the employee to assign* rights. This article summarizes the case and suggests some important lessons for both employers and employees.

Case Summary

David Barstow was employed by Schlumberger Technology Corp., when the inventions were made, as a computer scientist to develop software to control and record data measured by sensors used in logging oil wells. At the start of his employment, Barstow signed an employment agreement which stated:

> "Employee agrees to and does hereby grant and assign to Company or its nominee his entire right, title and interest in and to ideas, inventions and improvements…(a) which relate in any way to the business or activities of [Schlumberger], or (b) which are suggested by or result from any task or work of Employee for [Schlumberger], or (c) which relate in any way to the business of activities of Affiliates of [Schlumberger], together with any and all domestic and foreign patent rights in such ideas, inventions and improvements. Employee agrees to execute specific assignments and do anything else properly requested by [Schlumberger], at any time during or after employment with [Schlumberger], to secure such rights."

During his employment Barstow and his brother made inventions relating to computer simulations of live events, such as baseball. He discussed the projects which led to the patents with Schlumberger's general counsel for software and with the director of the lab where he worked. Both testified they knew he was working on a baseball simulator, but did not believe at that time that the project applied to Schlumberger's business or belonged to Schlumberger.

The Barstows were ultimately granted three patents on their inventions. They formed a company called DDB Technologies and assigned the patents to it. DDB subsequently sued MLB Advanced Media ("MLBAM") for infringement. After suit was filed, Schlumberger assigned all of its interest in the patents to MLBAM and granted it a retroactive license. MLBAM then moved to dismiss DDB's suit. The U.S. District Court for the Western District of Texas granted the motion, finding that the patents fell within the scope of Barstow's employment agreement, that the language of the agreement created an automatic assignment of Barstow's rights to Schlumberger, and that Schlumberger had validly assigned these rights to MLBAM.

On appeal the CAFC found that although state law governs the interpretation of contracts generally, whether a patent assignment clause in an employment agreement creates an

automatic assignment or merely an obligation to assign is a matter of federal law, to promote consistency in the national patent scheme. Furthermore, the Court stated that the specific language determines whether an assignment clause is automatic or merely a promise to assign. If the contract expressly grants rights in future inventions, the transfer of title to the invention is automatic and occurs by operation of law. If the contract merely obligates the inventor to grant rights in the future, the employer receives equitable rights in inventions when they occur, but does not receive legal title automatically.

Based on the "**does hereby grant and assign**" language of Barstow's employment agreement, the CAFC upheld the lower court's finding that, assuming the patents in suit were within the scope of this contract, they were automatically assigned to Schlumberger by operation of law at the time the invention was made. This finding obviated DDB's arguments that Schlumberger's claim of ownership was barred by the statute of limitations, that Schlumberger had waived its claim of ownership or was subject to estoppel based on its unreasonable delay in asserting its rights, and that Schlumberger had acquiesced in Barstow's assertion of personal ownership.

However the CAFC remanded to the district court for discovery on whether the inventions were within the scope of Barstow's employment agreement, noting that evidence that the parties agreed during performance that Barstow's work leading to the patents was not covered by the agreement would be "highly relevant, if not dispositive."

Practical Lessons

This case reminds us how important it is to ensure both proper procedures and proper language in IP ownership clauses. In particular —

If you're an employer:

- Be sure your IP ownership is self-executing, using "hereby grants and assigns" language.
- Define *broadly* the scope of work covered by this grant: not just what your employees do during their "40 hours" on-site, but what they do anywhere, anytime, that uses company resources or that is derived from or suggested by company projects. (Many techies do their best work on nights and weekends; you can always waive claims that capture too much of your employee's personal creativity.)
- Require employees to promptly disclose all work product within the defined scope.
- Establish procedures for determining whether particular creations are covered by the grant, are outside the grant, or are of such limited use to the company that it will waive its claim and return all (or selected) rights to the employee.

If you're an employee:

- Be sure the contract doesn't give your employer rights to pre-existing inventions or capture more of your creativity than is reasonable (be particularly wary of provisions that cover your *activities* after you terminate).
- If you develop something you believe is outside the scope (but raises issues) or that is within the scope, but far more useful to you than your employer, try dealing with it early and clearly – and remember, often only an express *written* transfer will assure you of ownership.
- Moonlight cautiously: if you plan to start your own business, working for your employer during the day, while developing related technologies for your new venture at night, is a recipe for problems. Terminate your employment as early as possible when developing the inventions, works and other material that you plan to use in your new business.

Please contact **Lisa M. Warren** or **Howard G. Zaharoff** with questions.