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When 'Will' Won't Do In Employment Agreements

Law360, New York (September 22, 2008) -- The U.S. Court of Appeals for the Federal Circuit recently held that federal law, not state law, determines the effect of a provision in an employment agreement assigning an employee's rights in a patent to his employer. DDB Technologies LLC v. MLB Advanced Media LP, Fed. Cir., No. 2007-1211, 2/13/08. The Federal Circuit's decision provides a roadmap for employers to obtain successful assignments of employee's patent rights.

The case began in 2004 when DDB Technologies LLC filed suit against MLB Advanced Media LP alleging that several of MLB's Internet services infringed certain U.S. patents, in which Dr. David Barstow and his brother Daniel were the named inventors. The patents covered a method for broadcasting data about a live baseball game and providing a simulation of that event that could be viewed on a computer. In 1998, the Barstow brothers assigned the patents to DDB.

Prior to forming DDB, from 1980 until 1994, Dr. Barstow was employed as a computer scientist by Schlumberger Technology Corporation. Dr. Barstow's employment agreement with Schlumberger stated, in part, that from the inception of his employment he "agrees to and does hereby grant and assign to [Schlumberger] ... his entire right, title and interest in and to ideas, inventions and improvements ... which relate in any way to the business or activities of [Schlumberger] or which are suggested by or result from any task or work of employee for [Schlumberger] ... and [he] 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."

The employment agreement also stated that it "shall be interpreted and construed in accordance with the laws of that jurisdiction in which enforcement is sought."

After DDB filed suit against MLB in 2004, MLB acquired an assignment of and license to all of Schlumberger's interests in Barstow's inventions. Dr. Barstow admitted that he had worked on his invention while employed at Schlumberger, but during his personal time.

In fact, both Schlumberger's general counsel for software matters and its director of the lab in which Dr. Barstow worked testified that they knew he had been working on a "baseball simulator" project. They also testified that they had discussed Dr. Barstow's project together and with Dr. Barstow, and they did not believe, at the time, that Dr. Barstow's project belonged to Schlumberger.

Despite this testimony, the district court found that the patents in suit fell within the scope of Dr. Barstow's employment agreement because they were both "suggested by" and "related to" his work for Schlumberger.

In determining that the patents in suit were "suggested by" Dr. Barstow's work, the district court relied upon their relationship to two prior patents issued to Schlumberger that named Dr. Barstow's as an inventor.

During examination by the United States Patent and Trademark Office of three of the four Patents at issue in the DDB suit, one of Dr. Barstow's Patents had been identified by the examiners as prior art, i.e., that it presented material that was either identical to that claimed or would suggest the claimed subject matter to a person familiar with that technology.

In determining that the patents in suit were "related to" Dr. Barstow's work, the court also relied in part on a 1992 letter from Dr. Barstow to his brother Daniel. The district court interpreted comments in his letter as an admission by Dr. Barstow that there was, in fact, a relationship between the subject matter of the patents and his work for Schlumberger.

After acquiring the assignment of the Barstow patent from Schlumberger, MLB moved the district court to dismiss the action for lack of subject matter jurisdiction based on DDB's failure to join all owners of the Patents, including MLB in the suit. In opposing MLB's motion to dismiss, DDB asserted the defenses of the statute of limitations, waiver, estoppel and laches.

The district court rejected DDB's equitable defenses because the language of the employment agreement provided for an automatic assignment of Dr. Barstow's rights.

In addition, the district court held that these equitable defenses were not available because Dr. Barstow had not complied with the disclosure requirements of the employment agreement. Having concluded that Schlumberger, and therefore MLB, were co-owners of the patents, the court determined that it lacked subject matter jurisdiction because DDB had not joined Schlumberger and could not join MLB.

On appeal, the Federal Circuit rejected DDB's argument that there was no automatic assignment because of the language in the employment agreement requiring Dr. Barstow to "execute specific assignments and do anything else" requested by Schlumberger during or after his employment.

The court concluded that the provision in the employment agreement that Dr. Barstow "agrees to and does hereby grant and assign" to Schlumberger all rights in future inventions falling within the scope of the agreement "is automatic, requiring no further act on the part of the assignee."

According to the Federal Circuit, when a "contract expressly grants rights in future inventions, no further act [is] required once an invention [comes] into being, and the transfer of title [occurs] by operation of law."

On the other hand, contracts that "merely obligate the inventor to grant rights in the future, by contrast, may vest the promisee with equitable rights in those inventions once made, but do not by themselves vest legal title to patents on the inventions in the promisee."

Thus, contracts which provide that all rights to inventions within the scope of the agreement "will be assigned by" employee to employer, vest the employer only with equitable, not legal rights. The conclusions are supported by prior case law, such as that cited by the court in DDB.

The court remanded for further discovery the question of whether the patents "related in any way to the business" of Schlumberger or were "suggested by or result from any task or work" of Dr. Barstow for Schlumberger.

However, the most significant aspect of the decision is that in reaching the conclusion that the assignment was automatic, the Federal Circuit court relied upon federal law, rather than upon state law cases that are normally the basis for interpretation of contracts.

Since the action was brought in Texas, under the choice of law provision in the employment agreement Texas law would apply. The parties did not dispute that Texas law would bar the equitable defenses if there were an automatic assignment.

Although the majority of the panel acknowledged role of "state contract law" in interpreting contracts, it nonetheless announced that federal law governs the effect of a contractual patent assignment clause.

The basis for this conclusion is that, "[a]lthough state law governs the interpretation of contracts generally, the question of whether a patent assignment clause creates an automatic assignment or merely an obligation to assign is intimately bound up with the question of standing in patent cases" and therefore is "a matter of federal law."

Attorneys drafting employment agreements for employers might be surprised to find that, notwithstanding a choice of law provision, federal law governs the effect of the assignment of patent rights. Any surprise will become delight with the recognition that the Federal Court's decision is of clear benefit to employers.

In holding that language such as "does hereby grant and assign" in an employment agreement automatically grants the employer legal title to an employee's patentable invention, even if not yet conceived or existing when the agreement was signed, the Federal Circuit provided a clear guide to those drafting employment agreements, particularly when the employee that is subject to the agreement is to work in the technology aspect of an employer's business. "Does hereby assign" works to assign legal title; "will assign" does not.

In addition, the Federal Circuit decision provides a uniform standard to determine the effect of a patent assignment clause for employers with employees in more than one state. It also provides the multi state employer with recourse to federal court for disputes that had heretofore only been the purview of state courts.

The decision provides a new tactic for employers to secure a place in federal court for their employment contract disputes, where inventing and disposition of patent rights were addressed in the underlying employment agreement.

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