

AGREEMENT DRAFTING TIPS TO SAFEGUARD IP RIGHTS



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Intellectual property rights can arise through various situations that are typically covered by written agreements, including:

(1) employee developments, (2) consultant services, (3) joint development arrangements, and (4) acquisitions, such as licenses of third party IP. When negotiating and drafting such agreements, care should be taken to ensure that rights are properly identified and secured for the client (Company). Because IP may be developed directly for Company by its employees, by outside parties retained by Company, or through joint efforts with a third party (with the resulting work product from each of these being the “developed IP”), consideration must be given to IP ownership issues. Company’s ability to use and exploit the developed IP is a central concern for any IP agreement.

Effective IP agreements require careful thought and a good degree of precision in crafting definitions and various other provisions. Every technology transfer agreement affords the opportunity to legal counsel to creatively draft terms and conditions to meet the goals of the parties to the agreement and address the circumstances unique to each situation. This article highlights some of the more important considerations and agreement terms to help protect Company’s rights in the developed IP.

OWNERSHIP AND EMPLOYEE ASSIGNMENTS

In the United States, ownership of IP, such as patent and trade secret rights, does not automatically rest with the employer but instead initially rests with the inventor.¹

The inventor must execute an appropriate assignment document in order to transfer ownership of the invention to Company. Ownership will allow Company to seek protection for the invention, for example, through patent applications, and to enforce the rights against others. Without an assignment of the inventor’s rights, the inventor retains ownership in the invention, and Company may have limited² or no rights in the invention. Although U.S. Patent and Trademark Office procedures allow Company to pursue a patent application under certain circumstances even if the inventor’s signed declaration cannot be obtained,³ these procedures do not resolve all ownership issues. Consequently, although Company may obtain a patent on the invention, the uncooperative inventor who has not assigned his rights to Company will remain free to separately exploit any granted patent, and Company’s competitors could even gain rights from the inventor to practice the patented invention. This, of course, is not a desirable situation for Company.

An executed assignment typically is the most straightforward proof of ownership in IP rights. Assignments should be obtained from all inventors as soon as possible to avoid potential issues, such as departed inventors who can be difficult to locate or may no longer be cooperative. Employment agreements with relevant provisions can be a safeguard in situations where Company does not have current contact with a former employee or a former employee refuses to execute an assignment to an invention developed in the course of his employment. A standard employment agreement that includes language stating that the employee assigns to Company

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all inventions developed during her employment will help support a claim that the employee at least had an obligation to assign and therefore Company rightfully owns all rights in the invention. For example, including a provision such as “[employee] agrees to assign, and hereby assigns, all inventions made during the course of my employment...” in the employment agreement can effectively transfer ownership rights to Company without any further assignment from the inventor. Similarly, with respect to copyrights, the agreement could include a clause that “the parties agree that the work product shall be a ‘work made for hire’ but, if not, then employee hereby assigns to Company the copyright of the work product.”

EXPRESS ASSIGNMENT LANGUAGE

Express language such as “hereby assigns,” rather than merely “agrees to assign” or “shall assign,” should be used in an agreement to effectively assign the applicable rights. “Hereby assigns” is viewed as a present assignment of all applicable future rights in an invention,⁴ and no further assignment is necessary to transfer ownership of the rights (although a confirming assignment document for a specific patent application later may be obtained so that it can be recorded with the U.S. Patent and Trademark Office).

CONSULTING OR DEVELOPMENT AGREEMENTS – A NDA IS NOT ENOUGH

When developing new technology, Company may seek assistance from outside parties. Even if Company is paying a consultant or contributing to joint efforts undertaken with another party, Company’s rights can be compromised if the proper agreement is not in place before work begins.

Although research and development (R&D) personnel may enter into a non-disclosure agreement (NDA) with an outside party before initiating discussions about developing new technology, a NDA alone will not protect Company’s interests in future IP rights. In most cases, terms on IP rights and responsibilities—other than confidentiality and use restrictions—preferably are not included in the NDA, and the parties will need to enter into a subsequent, more comprehensive agreement following initial discussions. However, having a NDA in place may give R&D personnel a false sense of security if they lose sight of the limitations of the NDA and the need to enter into a further agreement at the appropriate time. Company can lose leverage in negotiations or, more significantly, the ability to control and/or practice the IP rights, if the parties have not entered into an agreement before development activities commence.

Any consulting or development agreement should include as much detail as possible regarding rights, responsibilities and other terms of the relationship, rather than relying on a separate addendum or a Statement of Work (SOW) to define key terms. Although reference may be made in the agreement to the format for the SOW, a template of which often is attached to the agreement as an exhibit, it will be incumbent on the parties to follow up later with an executed SOW. Additional issues may arise if R&D negotiates the SOW but an attorney does not have the opportunity to review the SOW to ensure that no terms conflict with the original agreement or that any SOW terms unintentionally supersede the prior agreement terms. To guard against this, the consulting or development agreement should include all terms and should specify that those agreement terms will control over terms in a subsequent SOW. Certain exceptions may be warranted, for example, if there is a later-

developed invention that the parties agree to treat differently such that it is necessary to have the SOW or an amending agreement override terms of the original agreement. In such situations, the SOW or amending agreement should clearly specify the particular subject matter that will be governed by the new terms and confirm which original terms continue to govern the original subject matter.

BACKGROUND OR PRE-EXISTING IP

Typically, each party will retain ownership of its pre-existing IP that it brings to the relationship. If pre-existing, or background, IP is potentially relevant to the joint efforts and may be utilized in the developed IP, the agreement should clearly define each party's pre-existing IP and require that a party notify the other party if pre-existing IP is incorporated into the developed IP. Also including in the

particularly important if Company has internal R&D operations in related technology areas and does not wish to share with the other party any developments from those separate R&D operations.

DEVELOPED IP – CONSULTANTS

When Company hires an outside consultant to develop technology, Company usually will seek to own and control all developed IP, even if developed solely by the outside consultant, without any further payments to the consultant and without granting any ownership or commercialization rights to the consultant. If the consultant is another company, rather than an individual, the agreement should specify that the consultant will ensure that each of the consultant's employees performing work on the project agrees in writing to assign all IP rights.

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agreement a license grant to the pre-existing IP will ensure that Company is able to practice the developed IP, both during and after the development activities. The terms of the license (e.g., exclusivity, royalties, field of use, etc.) can be negotiated along with the terms of the joint development agreement and tailored to address the expected needs of Company after the conclusion of the development activities.

INDEPENDENT IP

During the term of the agreement, a party may independently develop IP that is not related to the scope of work under the agreement. The party who develops that IP most often will retain the ownership rights in the IP, and the agreement will typically exclude such IP from any grant of rights to the other party. This is

The consultant must be responsible for obtaining all executed assignments and other documents from its employees. In the event that an inventor's assignment is needed, the burden should be on the consultant to obtain the assignment, and Company will have a cause of action against the consultant if it fails to obtain the assignment. The “hereby assigns” language can be included in the agreement as further evidence that the consultant has agreed that it will not retain any rights in the developed IP.

DEVELOPED IP – JOINT DEVELOPMENT

Unless one party will make a greater contribution of resources to the joint activities or has a stronger position in negotiations,

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ownership rights under joint development agreements often follow inventorship of the developed IP. Thus, if both parties have employees who have contributed to the invention, the parties will jointly own, and each have an undivided, equal interest in, the developed IP in accordance with 35 USC § 262. Of course, the right to commercially exploit the developed IP need not track ownership rights, and the parties have flexibility in allocating ownership of the IP (with corresponding assignment obligations between the parties) and/or carving out commercialization rights in the developed IP generally however they desire. For example, they may choose to grant sole ownership of certain types of developments (e.g., manufacturing processes to one party or compositions to the other party) or give each party exclusive rights in particular fields of use, all of which can be set forth in the agreement. The parties also may allocate rights differently in view of other considerations that arise in the context of joint development efforts. For example, joint ownership presents unique issues regarding patent rights, (e.g., prior art status, enforcement of the rights, etc.) that should be carefully evaluated when drafting a joint development agreement to ensure that the parties recognize the maximum benefits from their joint efforts and avoid unanticipated situations.

In addition to dividing up ownership rights, the agreement can provide for contingent rights. Company may seek a right of first refusal to purchase or license the other party's interest in the pre-existing IP or developed IP if that party is no longer interested in the IP. This will help prevent an unintended transfer of rights to a competitor or other third party by the other joint owner.

PROTECTION AND ENFORCEMENT

The agreement ideally will include terms addressing how the parties desire to handle on-going responsibilities with respect to the rights, as well as disposition of the rights after the relationship ends. Providing as much detail as possible in the agreement regarding prosecution responsibilities can help avoid misunderstandings later on. Relevant terms include how the parties will decide whether and where to file new or continuing patent applications, who will control prosecution decisions and the level of input each party will have, whether to maintain an application or patent in a particular country, whether to enforce a patent, and how the costs will be apportioned in each of these situations.

Drafting technology development agreements to address as many issues as possible regarding IP ownership, rights and responsibilities, while also anticipating the needs of Company during the course of the relationship and later during commercialization of the developed IP, can mitigate easily avoidable pitfalls and subsequent disputes. Careful consideration of the various issues can help prevent inadvertent loss of rights and other unintended consequences so that Company can enjoy the full extent of rights in the developed IP. ■

¹ The laws differ depending on the type of IP. For example, unlike patents, copyrightable work product created by an employee in the course of his or her employment duties may be considered a "work made for hire," and the copyright typically belongs to the employer. 17 U.S.C. § 101.

² At best, Company may be a joint owner, if there are other inventors and they have assigned their rights to Company. Without the inventor's assignment or obligation to assign, Company may have only a limited implied license, or "shop right" in the invention.

³ 37 C.F.R. § 1.64 Substitute statement in lieu of an oath or declaration.

⁴ *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1572-73 (Fed. Cir. 1991); see also *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*, 563 U.S. 776 (2011). Although current law under *FilmTec* recognizes "hereby assigns" clauses as automatically and immediately assigning legal title (as opposed to equitable title) to future inventions, the rule was questioned in Justice Breyer's dissenting opinion in *Stanford* and continues to be criticized by legal scholars.