

CLIENT ALERTS

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Employee Invention Agreements Governed by Federal Law

On February 13, 2008, the United States Court of Appeals for the Federal Circuit held that the provisions of an employment agreement assigning an employee's rights in a patent to an employer should be decided by federal law, rather than state law. The decision in *DDB Technologies L.L.C. v. MLB Advanced Media L.P.*, Fed. Cir., No. 2007-1211, 2/13/08, is already being described by management- and employee-side counsel alike as a victory for employers that will strengthen the rights of employers to employee inventions.

The Facts of DDB

To understand the implications of *DDB*, one must have some grounding in the factual and procedural history, though the decision's import transcends its somewhat convoluted background. Simply stated, the Federal Circuit affirmed in part, vacated in part and remanded for further discovery the district court's decision in a matter involving an employee's purported assignment of patent rights to his employer.

The case had begun with DDB suing MLB Advanced Media for infringement. But a DDB principal, David Barstow, had previously worked for Schlumberger Technology Corporation and Barstow's employment agreement with Schlumberger stated at the inception of his employment that he "agrees to and does hereby grant and assign to Company ... 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]." After DDB sued MLB, MLB purchased any and all of Schlumberger's rights in Barstow's inventions.

The infringement suit involved a method patent for broadcasting data about a live event, such as a baseball game, and producing a simulation of that event to be viewed on a computer.

Barstow had admittedly worked on this invention while employed at Schlumberger, but during his personal time. In fact, both Schlumberger's general counsel for software matters and the director of the lab in which Barstow worked testified that they knew Barstow was working on a "baseball simulator" project, that they had in 2007 discussed the project with Barstow and also between themselves, and that they did not believe at the time that the project belonged to Schlumberger.

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

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the patents in suit were “suggested by” Barstow’s work, the district court relied particularly on their relation to two prior patents issued to Schlumberger that named Barstow as the inventor. During the prosecution of three of the four patents in suit, one of these patents was listed by the patent examiners as prior art (although not cited by the applicant as prior art). In determining that the patents in suit were “related to” Barstow’s work, the court relied in part on a 1992 letter from Barstow to his brother Daniel which the district court interpreted as an admission by Barstow of such a relation. Because the language of the employment agreement provided for an automatic assignment of Barstow’s rights, the court rejected DDB’s statute of limitations, waiver, estoppel, and laches defenses. The court also held that the equitable defenses were not available because Barstow had not complied with the disclosure requirements of the employment agreement. Having concluded that Schlumberger, and thereafter MLBAM, was a co-owner of the patents, the court determined that it lacked subject matter jurisdiction because DDB had not joined Schlumberger and could not join MLBAM.

The Analysis and Its Import

The Federal Circuit noted that an assignment of patent rights in an agreement “such as the one in this case 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.’” Conversely, “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.’” (emphasis in *DDB*). Such a ruling is and can be supported by pre-existing case law, such as that cited by the Court in *DDB*.

But the Federal Circuit went further than mere reliance on cases that would support such a distinction under state law normally used to interpret employment contracts. Though the panel majority acknowledged “state contract law,” it also announced that federal law preempts state law for employment contracts that include rights to patents, reasoning 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.”

DDB therefore provides a strong tool for employers. By holding that the language “*does hereby grant and assign*” in the employment agreement at issue was sufficient to automatically grant the employer title in an employee’s patentable invention, even if not yet conceived or existing when the agreement was signed, the Court provided guidance for contract drafting. But more importantly, in holding that such a determination was a matter of federal law, the Court provided employers with a promise of the uniformity with which that rule will apply going forward, as employers can leave behind the vagaries of inconsistent rules that could apply to a multi-state work force.

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