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## A Guide to Drafting Effective Assignments of Copyrights and Patents in Executive Employment Agreements



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“The rule [for patent assignments] nonetheless remains a technical drafting trap for the unwary.” *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 563 U.S. 776, 800 (2011) (Breyer, J., dissenting).

“When you’re young, you just want to get out there and aren’t really paying attention to what’s on paper. I never even read one contract they put in front of me, and that’s a big mistake.”<sup>1</sup> Victor Willis, writer of the lyrics for YMCA

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<sup>1</sup> For an obligor’s common law duty to read a contract before signing it, see *Carroll Touch, Inc. v. Electro Mech. Sys., Inc.*, 15 F.3d 1573, 1580 (Fed. Cir. 1993) (“[I]f Lazarevich [the former employee] was indeed mistaken as to what he was assigning under the [invention] assignment agreement, that mistake was attributable solely to his own imprudence. EMS [the subsequent employer founded by Lazarevich] does not dispute that Lazarevich is an intelligent, well educated, and sophisticated individual and that he was fully capable of reading and comprehending the agreement at the time it was executed.”); *Centrifugal Force, Inc. v. Softnet Comm’n, Inc.*, No. 1:08-cv-05463, 2011 BL 333812, at \*7 (S.D.N.Y. Mar. 1, 2011) (failure to read a clickwrap license agreement before agreeing to its terms does not relieve a party of its obligations under the agreement); *Bar-Ayal v. Time Warner Cable Inc.*, No. 1:03-cv-

and *In the Navy* and former lead singer for the Village People.

A dual regime of federal<sup>2</sup> and state law applies to the determination of whether an employer or employee owns a copyright or patent. For copyrights,<sup>3</sup> a federal statutory regime provides that when an employee creates a work within the scope of his or her employment, the work is made for hire and the employer owns the copyright. When a work is not made for hire, the federal statutory regime provides that the employee-author owns the copyright, and permits the employer to acquire the copyright by assignment from the employee-

09905, 2006 BL 110429 (S.D.N.Y. Oct. 16, 2006); *Scion Breckenridge Managing Member, LLC v. ASB Allegiance Real Estate Fund*, 68 A.3d 665, 677 (Del. 2013); *Pellaton v. Bank of New York*, 592 A.2d 473, 477, (Del. 1991); *Newell Rubbermaid, Inc. v. Storm*, No. 9398, 2014 BL 86472 (Del. Ch. Mar. 27, 2014); *Parker Rust-Proof Co. v. Allen*, 203 N.W. 890 (Mich. 1925) (employee bound by agreement to assign patents even though he claimed that he did not know what he was signing); *Gillman v. Chase Manhattan Bank*, 537 N.Y.S.2d 787 (N.Y. 1988) (failure to read a contract before agreeing to its terms does not relieve a party of its obligations under the contract); *Nat’l Bank v. Equity Investors*, 506 P.2d 20 (Wash. 1973) (in the absence of fraud or coercion, a party who voluntarily signs but does not read a contract is bound by it).

<sup>2</sup> The power of Congress to regulate copyrights and patents is found in Section 8 of Article I of the United States Constitution, which grants Congress the power “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”

<sup>3</sup> Copyright protection applies to original works of authorship fixed in any tangible medium of expression. 17 U.S.C. § 102(a). Works of authorship means architectural works, dramatic works (including any accompanying music), literary works, motion pictures and other audiovisual works, musical works (including any accompanying words), pantomimes and choreographic works, pictorial, graphic and sculptural works, and sound recordings. *Id.*

A copyright gives the owner the rights to (1) reproduce the copyrighted work; (2) prepare derivative works; (3) distribute copies to the public by sale or other transfer of ownership, or by rental, lease, or lending; (4) perform or display the work publicly; and (5) in the case of sound recordings, perform the work publicly by means of a digital audio transmission. 17 U.S.C. § 106.

author to the employer. A state regime, usually the common law of contracts, determines the scope of assignments.

For patents,<sup>4</sup> a federal statutory regime provides that unless an employee is hired to invent, the employee-inventor owns the invention. This regime permits the employer to acquire the invention by assignment from the employee-inventor to the employer. As a result of judicial interpretation of the standing requirements in an action for patent infringement, federal common law determines whether an assignment is a present transfer of an expectant interest, or an agreement to assign in the future. Other than this determination, a state regime, again usually the common law of contracts,<sup>5</sup> determines the scope of assignments.

The dual regime of federal and state law often results in a mishmash of legal rules. For employers to successfully navigate this mishmash and ensure their ownership of copyrights and patents with reasonable certainty, effective assignments are necessary.<sup>6</sup> The Model Confidentiality and Intellectual Property Provisions (the “Model Provisions”) in the Appendix are intended to serve as effective assignments.

## Copyright Ownership Under Federal Law

For copyrights, ownership of the copyright initially vests in the author of the work.<sup>7</sup> Generally, the author

is the person who actually creates the work, which is the person that puts an idea into a fixed, tangible expression.<sup>8</sup> A copyright does not vest in the employer solely because the subject matter of the work bears upon or arises out of the employment relationship,<sup>9</sup> or the employee uses the employer’s facilities or resources in creating the work.<sup>10</sup>

However, when a work is made for hire by an employee, the employer is treated as the author and owner of the copyright.<sup>11</sup> A written assignment from the employee to the employer is not necessary, and the employer can register the work in the Copyright Office in its name.<sup>12</sup>

With a work made for hire, the employee can acquire the copyright only if the employer and employee expressly agree to the employee’s ownership in a written instrument signed by both of them.<sup>13</sup> Equitable de-

<sup>8</sup> *Cmt. for Creative Non-Violence v. Reid*, 490 U.S. 730, 737 (1989) (“As a general rule, the author is the party who actually creates the work, that is, the person who translates an idea into a fixed, tangible expression entitled to copyright protection.”).

<sup>9</sup> *Avtec Sys., Inc. v. Peiffer*, 21 F.3d 568, 572 (4th Cir. 1994); *Pavlica v. Behr*, 397 F. Supp. 2d 519, 525 (S.D.N.Y. 2005); *Schmid Bros., Inc. v. W. Goebel Porzellanfabrik KG*, 589 F. Supp. 497 (E.D.N.Y. 1984).

<sup>10</sup> *Balt. Orioles, Inc. v. Major League Baseball Players Ass’n*, 805 F.2d 663, 672 n.14 (7th Cir. 1986).

<sup>11</sup> 17 U.S.C. § 201(b).

<sup>12</sup> 17 U.S.C. §§ 408(a) and 409. Registration is necessary to bring an action for copyright infringement, 17 U.S.C. § 411(a), and to obtain statutory damages, 17 U.S.C. § 412.

<sup>13</sup> 17 U.S.C. § 201(b); see also *Balt. Orioles, Inc. v. Major League Baseball Players Ass’n*, 805 F.2d 663 (7th Cir. 1986) (since baseball players were employees of clubs and the scope of their employment covered performances before broadcast audiences, the clubs owned the copyright in the game telecasts as a work made for hire; statutory presumption that the clubs owned the copyright was not rebutted when the players and clubs did not expressly agree in the Uniform Player Contract, Benefit Plan, and collective bargaining agreement that the players owned the copyright; an agreement that alters the statutory presumption that the employer owns the copyright in a work made for hire must appear on the face of the signed written document), *cert. denied*, 480 U.S. 941 (1987); *Molinelli-Freytes v. Univ. of Puerto Rico*, No. 09–1159, 2012 BL 263492, at \*12 (D.P.R. Sept. 30, 2012) (university intellectual property policy did not satisfy 17 U.S.C. § 201(b); only the employer signed the policy, and the statute required both the employer and employee to sign it; even if the policy had been signed by the employee, it was so broad that it was not an express agreement in which the employer knowingly and voluntarily consented to transfer a property right; the policy did not refer to the plaintiff employees or their work product, nor did it refer to “any type of negotiation and consideration given for the bargain of the supposed transfer;” these specifics necessarily were lacking as the policy was issued in 1993 and the work product was created in 2001); *Rouse v. Walter & Assoc. LLC*, 513 F. Supp. 2d 1041 (S.D. Iowa 2007) (university owned copyright to software created by university employees as a work made for hire; university copyright policy contained in a faculty handbook did not satisfy the requirement of a writing signed by both employer and employee); *Foraste v. Brown Univ.*, 248 F. Supp. 2d 71 (D.R.I. 2003) (university owned copyright to photographs taken by a staff photographer as a work made for hire; university’s copyright policy did not satisfy the requirement of a writing signed by both employer and employee); *Manning v. Bd. of Trs. of Cmty. College Dist. No. 505*, 109 F. Supp. 2d 976 (C.D. Ill. 2000) (university owned copyright to photographs taken by a staff photographer as a work made for hire; collective bargaining agreement that contained a policy statement that copyrights were owned by staff mem-

<sup>4</sup> Patent protection applies to the invention or discovery of any new and useful composition of matter, machine, manufacture, or process, or any new and useful improvement thereof. 35 U.S.C. § 101. The invention must satisfy the requirements of eligible subject matter, novelty, and nonobviousness. In addition, the patent application must fully and particularly describe the invention. 35 U.S.C. §§ 101 to 103 and 112.

A patent gives the owner the rights to exclude others from making, using, or selling the subject matter of the claimed invention. 35 U.S.C. §§ 154 and 271.

<sup>5</sup> For the freedom to create statutes of eight states, see discussion *infra* notes 158–167 and accompanying text.

<sup>6</sup> For the importance of certainty of ownership by businesses of their intellectual property, see Llewellyn Joseph Gibbons, “Tech Transfer: Everything (Patent) is Never Quite Enough,” 48 *U. Louisville L. Rev.* 843, 844 (Summer 2010) (“[A]bsent an express, written agreement between the university and the researcher, the legal determination of the ownership of copyrights and trade secrets requires that courts engage in the weighing of multi-factor tests and apply rigorous fact-specific analysis, which often yield unpredictable results. Ambiguous or unclear rights in intellectual property hinder alienation, licensing, commercialization, and the development of an orderly market for university-based research and innovation.”).

Parker Tresemer, “Best Practices for Drafting University Technology Assignment Agreements After *FilmTec*, *Stanford v. Roche*, and Patent Reform,” 2012 *U. Ill. J.L. Tech. & Pol’y.* 347, 371 (Fall 2012) (“Certainty of title and exclusive rights to inventions . . . are crucial to research, development, and the ultimate commercialization of federally funded technologies. Investors often want assurances of exclusive title to inventions before incurring any costs at all. Without exclusive, certain title, investors run the risk of other assignees or concurrent titleholders assigning patent rights to third-parties. These third-parties could subsequently compete with other investors, unrealistically drive down the price of marketable products, and make profitable investment in such technologies infeasible.”) (footnotes omitted).

<sup>7</sup> 17 U.S.C. § 201(a); *U.S. Auto Parts Network, Inc. v. Parts Geek, LLC*, 692 F.3d 1009, 1015 (9th Cir. 2012).

fenses are unavailable to employees who claim that the parties had an oral or implied contract. In addition, employees cannot claim that an employer's copyright policies estop the employer from asserting copyright ownership against an employee.<sup>14</sup>

When a work is not made for hire, the author can assign copyright ownership only by an instrument of conveyance, or a note or memorandum of the transfer, which is in writing and signed by the owner of the rights conveyed or the owner's duly authorized agent.<sup>15</sup> The assignment must "clearly identify the deal and its basic parameters."<sup>16</sup>

A work made for hire has a copyright term of the lesser of ninety-five years from the year of its first publication, and 120 years from the year of its creation.<sup>17</sup>

Outside the work made for hire context, a copyright has a term of the author's lifetime plus seventy years.<sup>18</sup>

bers did not satisfy the requirement of a writing signed by both employer and employee).

When the employer and employee have signed a written instrument granting the employee the copyright, the employer still remains the author of the work for purposes of the Copyright Act. As a result, the work continues to be treated as a work made for hire for purposes of the term of the copyright, and the lack of moral rights and termination rights. *Fleurimond v. New York Univ.*, 876 F. Supp. 2d 190, 208 (E.D.N.Y. 2012); 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 5.03[D] (2016).

<sup>14</sup> *Mason v. Jamie Music Publ'g Co.*, 658 F. Supp. 2d 571, 587 (S.D.N.Y. 2009); *Pamfiloff v. Giant Records, Inc.*, 794 F. Supp. 933, 936-37 (N.D. Cal. 1992); *Neva, Inc. v. Christian Duplications Int'l, Inc.*, 743 F. Supp. 1533, 1548 (M.D. Fla. 1990).

<sup>15</sup> 17 U.S.C. § 204(a); *Radio Television Espanola S.A. v. New World Entm't, Ltd.*, 183 F.3d 922, 929 (9th Cir. 1999).

<sup>16</sup> *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 564 (2d Cir. 1995) (assignment in legend on back of check in which payee assigned "all right, title and interest" in the described painting was ineffective when the assignment did not use the word "copyright," and evidence conflicted as to whether parties intended to assign the copyright or a one-time reproduction right), *cert. denied*, 516 U.S. 1010 (1995); *Woods v. Resnick*, 725 F. Supp. 2d 809, 826 (W.D. Wis. 2010); *Weinstein Co. v. Smokewood Entm't Grp.*, 664 F. Supp. 2d 332, 342 (S.D.N.Y. 2009).

See also *Cooper v. Harvey*, No. 3:14-cv-04152, 2016 BL 271620 (N.D. Tex. Aug. 21, 2016) (videographer Joseph Cooper and comedian Steve Harvey entered into a contract in 1993 for Cooper to make videotapes of Harvey's performances at the Steve Harvey Comedy House in Dallas, Texas; contract provided for Cooper to produce videotapes of "promotional material" that "will be looped for continuous play before, during and after show performances;" contract also provided that the "studio reserves the right to use the original tape and/or reproductions for display, publication or other purposes. Original videotapes remain the exclusive property of the studio;" in denying Harvey's motion for summary judgment that Harvey was the owner of the videotapes and that he never granted Cooper ownership rights, the court held, "These two provisions raise the question of whether the parties intended for the videos Cooper made to be used as promotional materials for the Comedy House, for Cooper to be able to release and sell the tapes himself, or, perhaps, both. All three are reasonable interpretations, but the Court cannot say which, if any, the parties intended. This makes the contract ambiguous;" parol evidence was necessary to ascertain the parties' intentions) (footnote and citation omitted).

<sup>17</sup> 17 U.S.C. § 302(c).

<sup>18</sup> 17 U.S.C. § 302(a). For artistic works still in their initial term of copyright protection on January 1, 1978, the Copyright Act establishes two terms of protection: an initial term of twenty-eight years from the date that the copyright was origi-

As a result, the person to whom the original author assigns the copyright must keep track of the duration of the original author's life to determine the copyright's term.

The Visual Artists Rights Act of 1990 grants authors of works of visual art<sup>19</sup> the moral rights of attribution and integrity, and in the case of works of visual art of recognized stature, the right to prevent destruction.<sup>20</sup> With a work made for hire, an employee does not have these rights.<sup>21</sup> For example, for a painting, sculpture, or façade that an employee creates as a work made for hire, the employee does not have the right to claim authorship of the work, or to prevent its destruction or mutilation.

Furthermore, with a work made for hire an employee does not have the Copyright Act's right to terminate

nally secured, and a renewal term of sixty-seven years. 17 U.S.C. § 304(a)(1)(A) and (C).

<sup>19</sup> A work of visual art means a: (1) drawing, painting, print, or sculpture, existing in a single copy, in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author, or in the case of a sculpture, in multiple cast, carved, or fabricated sculptures of 200 or fewer that are consecutively numbered by the author and bear the signature or other identifying mark of the author; or (2) still photographic image produced for exhibition purposes only, existing in a single copy that is signed by the author, or in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author. 17 U.S.C. § 101.

A work of visual art does not include any: (1) applied art, book, chart, database, diagram, electronic information service, electronic or similar publication, globe, magazine, map, model, motion picture or other audio-visual work, newspaper, periodical, poster, or technical drawing; (2) merchandising item or advertising, promotional, descriptive, covering, or packaging material or container; or (3) work made for hire. *Id.*

<sup>20</sup> 17 U.S.C. §§ 101 and 106A(a); *Garcia v. Google, Inc.*, 786 F.3d 733, 746 (9th Cir. 2015) (en banc) ("Except for a limited universe of works of visual art, such as paintings and drawings protected under the Visual Artists Rights Act of 1990, United States copyright law generally does not recognize moral rights."); *Pollara v. Seymour*, 344 F.3d 265, 269 (2d Cir. 2003) (whether a work is one of visual art should not depend on the medium or materials used); *Carter v. Helmsley-Spear, Inc.*, 71 F.3d 77, 81 (2d Cir. 1995) ("The right of attribution generally consists of the right of an artist to be recognized by name as the author of his work or to publish anonymously or pseudonymously, the right to prevent the author's work from being attributed to someone else, and to prevent the use of the author's name on works created by others, including distorted editions of the author's original work. The right of integrity allows the author to prevent any deforming or mutilating changes to his work, even after title in the work has been transferred.") (citations omitted).

Moral rights for works of visual art are not transferable, and are limited to the life of the author. 17 U.S.C. § 106A(d).

An author of a work of visual art can waive the author's moral rights by contract. 17 U.S.C. § 106A(e). Section 1.2(n) of the Model Provisions contains a broad waiver of moral rights for all Work Product. Courts should uphold a broad waiver in the employer-employee context. See *Cleary v. News Corp.*, 30 F.3d 1255, 1260 (9th Cir. 1994) (employee-artist of magazine did not have a right of attribution when the artist granted the magazine all the rights to his drawings in exchange for monthly compensation); *Nelson v. Radio Corp.*, 148 F. Supp. 1, 3 (S.D. Fla. 1957) (in the absence of an agreement to provide an employee-singer of a recording company with label credit, employee-singer did not have a right of attribution).

<sup>21</sup> 17 U.S.C. § 106A(a).

copyright transfers made by assignment or license.<sup>22</sup> In addition, the employer does not have the right to terminate any assignment or license that it granted to a third party.<sup>23</sup> The absence of termination rights provides greater assurance that works created as part of the employer-employee relationship are not subject to the risk of recapture by termination.

Outside the work made for hire context, when an author exercises the termination right, the author can extract additional compensation to reassign or relicense the copyright.<sup>24</sup> For copyright transfers made on or after January 1, 1978, an author can terminate any assignment or license between thirty-five and forty years after the date of execution of the transfer.<sup>25</sup> If the transfer

<sup>22</sup> 17 U.S.C. §§ 203(a) and 304(c)-(d); *Marvel Worldwide, Inc. v. Kirby*, 777 F. Supp. 2d 720, 750 (S.D.N.Y. 2011), *aff'd*, 726 F.3d 119 (2d Cir. 2013).

<sup>23</sup> *Id.* For example, a software provider employs programmers to create software programs as works made for hire. The software provider sells the software programs to IBM, but will not have the right to terminate the transfers thirty-five years later.

<sup>24</sup> See H.R. Rep. No. 1476, at 124 (1976), *reprinted in* 1976 U.S.C.A.N. 5659, 5740 (a termination right that safeguards authors against unremunerative transfers “is needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work’s value until it has been exploited. Section 203 reflects a practical compromise that will further the objectives of the copyright law while recognizing the problems and legitimate needs of all interests involved”).

See generally Doris Day, *The Party’s Over*, Music by Jule Styne and lyrics by Betty Comden and Adolph Green (Columbia 1956) (“The party’s over, it’s time to call it a day. They’ve burst your pretty balloon and taken the moon away. It’s time to wind up the masquerade. Just make your mind up, the piper must be paid.”).

For the use of popular music lyrics in legal writing, see Alex B. Long, “[Insert Song Lyrics Here]: The Uses and Misuses of Popular Music Lyrics in Legal Writing,” 64 *Wash. & Lee L. Rev.* 531 (Spring 2007).

<sup>25</sup> 17 U.S.C. §§ 101 and 203(a)(3); see also *Leeds v. Harry*, No. 157749/13, 2015 BL 33739 (N.Y. Sup. Ct. Feb. 5, 2015) (Singh, J.) (by agreement dated May 24, 1979, former manager of the rock group Blondie terminated his relationship with the group in exchange for commissions on Blondie’s gross earnings; Paragraph 3 of the Termination Agreement provided, “Without limiting the generality of the foregoing, it is understood that you are entitled to a commission on all of our earnings derived from records and tapes, writing and musical compositions, music publishing, personal appearances, television, radio commercials, merchandising and endorsements;” Paragraph 4 of Termination Agreement defined gross earnings as “all earnings, whether in the form of salaries, bonuses, flat fees, royalties, advances, interests, percentages, shares of profits, merchandise, shares in ventures, products, properties, sales price, or any other kinds or type of income which is reasonably related to the entertainment, amusement, music, recording, television, radio, literary, theatrical and advertising fields and all similar areas whether now known or hereafter devised;” Paragraphs 7 through 11 of the Termination Agreement provided commission rates for the sale of recordings; advances related to records, song writing, and music publishing; song writing and music publishing; personal appearances; and gross income earned by Blondie through May 1982 derived from any source other than recordings, song writing, music publishing, personal appearances, theatrical performances and motion pictures; by agreement dated December 21, 2012, Blondie transferred its copyright recapture rights under 17 U.S.C. § 203 to BMG Rights Management (US) LLC for \$1.3 million; court held that the Termination Agreement was am-

granted the right to publish the work, the termination period begins on the earlier of thirty-five to forty years from the date of publication, and forty to forty-five years from the date of execution of the transfer.<sup>26</sup> For example, if an author executes a transfer on January 1, 2015, the author can terminate the transfer any time between January 1, 2050 and December 31, 2054. If the transfer granted the right to publish, and publication occurred on January 1, 2016, the author can terminate the transfer any time between January 1, 2051 and December 31, 2055.

An author must serve a notice of intent to terminate not less than two nor more than ten years before the effective date of termination.<sup>27</sup> The notice must state the effective date of termination, which must come within the permissible termination period. Thus, the Copyright Act creates a thirteen year termination window. In ad-

dition, the Act is ambiguous as to former manager’s right to a commission on the sales price of the statutory recapture rights; although the sales price Blondie received for not exercising its recapture rights was reasonably related to music and recording and came within the definition of gross earnings, the Termination Agreement was silent as to the commission rate for the sale of statutory recapture rights; “The assignment of Blondie’s recapture rights is not income derived from the sale of records, advances or personal appearances, or gross income earned by defendants under the name Blondie before May 1982. The only provision that arguably may apply to Blondie’s sale of its statutory recapture rights is Paragraph 9, which sets a commission rate for income payable for song writing and music publishing. Arguably, in declining to exercise its statutory recapture rights, Blondie was earning income derived from song writing and music publishing. BMG paid Blondie \$1.3 million for the continued right to exploit the compositions and generate royalties”).

See generally Guy A. Rub, “Stronger Than Kryptonite: Inalienable Profit-Sharing Schemes in Copyright Law,” 27 *Harv. J.L. & Tech.* 49, 57 (Fall 2013) (“[T]he author of a song may unilaterally terminate a license allowing a record company to record the song; a performer may terminate an assignment of her rights to a record company that allows it to make copies of an album; and the author of a book may terminate a license to create derivative works based on the book, and thus prevent a movie studio from producing a film.”).

For copyright transfers made before January 1, 1978, there are two termination periods: fifty-six to sixty-one years after the date on which the copyright was secured, and seventy-five to eighty years after the date on which the copyright was secured. 17 U.S.C. § 304(c)(3) and (d)(2). An author must serve a notice of intent to terminate not less than two nor more than ten years before the date of termination. 17 U.S.C. § 304(c)(4)(A). If the author is deceased, the author’s surviving spouse, children, and grandchildren succeed to the termination right. 17 U.S.C. § 304(c)(1)-(2)(A)-(D).

See generally Larry Rohter, “A Copyright Victory, 35 Years Later,” *N.Y. Times*, Sept. 11, 2013, at C1, C7 (Victor Willis, writer of the lyrics for YMCA and *In the Navy* and former lead singer for the Village People, “decided to speak out now so as to alert other artists, both established and emerging, to protect their copyrights. He said it was only because his wife is a lawyer that he became aware of his termination rights. ‘I’m hoping that other artists will get a good lawyer and get back the works that a lot of us gave away when we were younger, before we knew what was going on,’ he said. ‘When you’re young, you just want to get out there and aren’t really paying attention to what’s on paper. I never even read one contract they put in front of me, and that’s a big mistake’ ”).

<sup>26</sup> 17 U.S.C. § 203(a)(3).

<sup>27</sup> 17 U.S.C. § 203(a)(4). See generally R. Anthony Reese, “Termination Formalities and Notice,” 96 *B.U. L. Rev.* 895 (May 2016).

dition, the author must file a copy of the notice with the Copyright Office before the effective date of the termination as a condition of the termination taking effect.<sup>28</sup>

In the prior example, the author can serve a notice on the assignee and file a notice in the Copyright Office as early as January 1, 2040, and as late as December 31, 2052. If the transfer granted the right to publish, the author can serve and file a notice as early as January 1, 2041, and as late as December 31, 2053.

If the author is deceased, the author's surviving spouse succeeds to the termination right.<sup>29</sup> If, in addition to the surviving spouse, there are surviving children or grandchildren, the surviving spouse succeeds to one half of the termination right, and the children and grandchildren succeed to the other half per stirpes.<sup>30</sup> If there are only surviving children or grandchildren, they succeed to the termination right based on the number of children per stirpes. The share of a deceased child with surviving grandchildren may be exercised only by majority action of the grandchildren.<sup>31</sup> If the author does not have any surviving spouse, children, or grandchildren, the author's executor, administrator, personal representative, or trustee succeeds to the termination right.<sup>32</sup>

The termination right applies "notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant."<sup>33</sup> Accordingly, a waiver of the termination right in an employment or intellectual property agreement is unenforceable.<sup>34</sup>

The termination right has the potential for unfairness to an assignee or licensee that has incurred substantial expense to create and distribute a derivative work. For example, the termination right can harm a publisher of works that are regularly updated, such as reference works and software.

The Copyright Act addresses this potential for unfairness in the following manner. When an author terminates a copyright, the assignee or licensee can continue

to use a derivative work prepared before the termination's effective date in accordance with the terms of the assignment or license in effect before termination.<sup>35</sup> Since the author must provide at least two years prior written notice before the effective date, the assignee or licensee will have at least two years to complete any derivative work. However, after the termination's effective date the assignee or licensee cannot prepare new derivative works based on the copyright.<sup>36</sup>

For example, after termination a publisher can sell the software prepared before termination, but cannot sell updates to the software and other new derivative works. As another example, an author assigns motion picture rights in a novel to a film studio. After termination the studio continues to have the right to distribute the motion picture made under this assignment, but cannot produce a new motion picture based on the novel. In both situations, the assignee must comply with the terms of the assignment in effect before termination. For example, if the assignment required the assignee to make annual royalty payments to the author based on gross sales of the derivative work, the assignee must continue to make the royalty payments on the gross sales of the derivative work that the assignee can continue to use.

After the termination's effective date the author can enter into new assignments or licenses. A new transfer is unenforceable if the parties agree to it before the termination's effective date regardless of whether the agreement provides that the transfer does not become effective until after the termination.<sup>37</sup> However, the author can make a new transfer before the termination's effective date to the original transferee whose rights are being terminated as long as the new transfer occurs after the author's service of the notice of termination.<sup>38</sup>

Finally, the determination of whether a work is made for hire is important in applying the Copyright Act's limitation of the provision of copyright protection to published works whose authors are United States nationals or domiciliaries.<sup>39</sup> A work made for hire receives copyright protection only if the employer is a United States national or domiciliary. Outside the work made for hire context, the author must be a United States national or domiciliary.

Since a work made for hire gives an employer substantial legal benefits under the Copyright Act, employers virtually always seek to have the works prepared by employees be works made for hire. A work made for hire is:

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written

<sup>28</sup> *Id.*; 37 C.F.R. § 201.10(f)(5).

<sup>29</sup> 17 U.S.C. § 203(a)(2)(A).

<sup>30</sup> 17 U.S.C. § 203(a)(2)(B)-(C).

<sup>31</sup> 17 U.S.C. § 203(a)(2)(C).

<sup>32</sup> 17 U.S.C. § 203(a)(2)(D).

<sup>33</sup> 17 U.S.C. § 203(a)(5). For copyright transfers made before January 1, 1978, the termination right applies "notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant." 17 U.S.C. § 304(c)(5); see also *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 290-91 (2d Cir. 2002) (settlement agreement entered into after a work's creation that stipulates that a work was made for hire constitutes an "agreement to the contrary;" "[T]he clear Congressional purpose behind § 304(c) was to prevent authors from waiving their termination right by contract. . . . If an agreement between an author and publisher that a work was created for hire were outside the purview of § 304(c)(5), the termination provision would be rendered a nullity; litigation-savvy publishers would be able to utilize their superior bargaining position to compel authors to agree that a work was created for hire in order to get their works published").

<sup>34</sup> See H.R. Rep. No. 1476, at 125 (1976), reprinted in 1976 U.S.C.A.N. 5659, 5740 ("[A]lthough affirmative action is needed to effect a termination, the right to take this action cannot be waived in advance or contracted away.").

See generally Lydia Pallas Loren, "Renegotiating the Copyright Deal in the Shadow of the 'Inalienable' Right to Terminate," 62 *Fla. L. Rev.* 1329 (Dec. 2010).

<sup>35</sup> 17 U.S.C. § 203(b)(1).

<sup>36</sup> *Id.*

<sup>37</sup> 17 U.S.C. § 203(b)(2).

<sup>38</sup> 17 U.S.C. § 203(b)(4).

<sup>39</sup> 17 U.S.C. § 104(b).

instrument signed by them that the work shall be considered a work made for hire.<sup>40</sup>

The treatment as a work made for hire for specially ordered or commissioned works does not apply to songs and sound recordings.<sup>41</sup> If a recording artist does

<sup>40</sup> 17 U.S.C. § 101; see also Joshua L. Simmons, “Catwoman or the Kingpin: Potential Reasons Comic Book Publishers Do Not Enforce Their Copyrights Against Comic Book Infringers,” 33 *Colum. J.L. & Arts* 267, 272 (2010) (publishers generally require comic book authors to sign agreements providing that the author’s work is commissioned as a work made for hire).

<sup>41</sup> *Ballas v. Tedesco*, 41 F. Supp. 2d 531 (D.N.J. 1999).

See generally Michael Beschloss, “The Shrewd Force Behind the Fab Four,” *N.Y. Times*, Apr. 12, 2015, at Sunday Business 3 (“In other areas of Beatles management, however, Epstein [Brian Epstein, the Beatles’ original manager] was out of his depth. Eschewing the kind of legal help a modern manager would secure, he unwisely allowed majority control of copyrights and royalties to pass to others, causing Mr. McCartney and Mr. Lennon to lose ownership of their classic songs.”); Hannah Karp, “Music Publishers Pay Big for Top-Name Artists,” *Wall St. J.*, Aug. 29, 2016, at B1, B4 (“The price of signing big-name artists to music publishing deals is skyrocketing – even for those more famous for singing than for songwriting. Harry Styles, a singer in the British boy-band One Direction, has been discussing deals with an upfront fee in excess of \$6 million while aiming to retain majority ownership of his songs, according to people familiar with the matter. Ex-bandmate Zayn Malik got several million dollars for a publishing deal with Kobalt Music Group Ltd. in June, according to Sas Metcalfe, who oversees Kobalt’s deals. The cost to sign such household names to songwriting contracts has increased about threefold over the past two years, some publishers say, so long as the stars take credit for at least co-writing their tunes. Mr. Styles and Mr. Malik earned co-writing credits on many of One Direction’s hits while Mr. Styles also helped write songs for stars such as pop singer Ariana Grande. The industrywide scramble for marquee talent, said Ms. Metcalfe, ‘feels a bit desperate sometimes.’ She added that Kobalt competes not just by dangling big advances but by offering its own royalty-collection technology and letting songwriters retain 100% of their copyrights for an administration fee – an arrangement that major music publishers tend to avoid. . . . But even as the recorded music industry has shed 60% of its annual revenue since 2000, music publishing has remained an attractive business for investors due to the many ways to exploit publishing copyrights beyond music sales. Unlike record labels, publishers collect royalties from terrestrial radio stations, bars, restaurants and other public venues that play their works. Publishers also tend to generate more royalties than labels from placement in film, TV and commercials since they collect on any artist’s recording of their compositions, said NMPA’s [National Music Publishers Association’s] president and chief executive, David Israelite.”).

Edward Kosner, “Market Mover,” *Wall St. J.*, June 1, 2014, at C9 (“According to ‘Michael Jackson, Inc.’ [a biography of Michael Jackson by Zack O’Malley Greenburg], the singer began thinking about music as a business soon after Berry Gordy’s Motown records signed the Jackson 5 in 1968. He was 10 years old. The boy soon came to understand that the publishing rights to the words and music of an artist’s songs hold great value. The owner of the rights to a song collects a small royalty every time a record of the tune is sold and every time the song is played on the radio or TV, licensed for use in a movie or recorded by another singer. These pennies per use could mature into a lifetime bonanza. It took Jackson more than a decade to act on his instinct, but once he started, he moved quickly. With his lawyer John Branca doing the scouting, Jackson started using the mountains of cash he was earning to buy up song catalogs. His first big investment – \$500,000 – got him the rights to Sly and the Family Stone’s oeuvre in

not otherwise create the work as a work made for hire as an employee within the scope of his or her employment, the recording artist must transfer the copyright to a record label or music publisher by assignment. In this situation, the recording artist has a termination right.<sup>42</sup>

To determine whether a work is made for hire, a court first determines whether an employee or an independent contractor prepared the work. The court makes this determination using general principles of agency law.<sup>43</sup> Once the court determines that an em-

1984. He promptly got it back when a British group recorded one of the numbers and it topped the U.K. charts. Jackson selectively added a few more catalogs. Then, in 1985, he made the big deal that cemented his fortune, saved him from bankruptcy and still generates millions in annual royalties today. For \$47.5 million he bought from an Australian buccaneer a company called ATV, whose chief asset was ‘Yesterday,’ ‘Penny Lane,’ ‘Hey, Jude’ and the rest – the Beatles catalog. [Record mogul] Walter Yetnikoff and show-business billionaire David Geffen warned Jackson off the deal, Mr. Greenburg reports, but the singer persevered. Today the expanded ATV catalog is valued at \$1 billion – a nifty return on investment by any measure.”).

<sup>42</sup> See Wallace E.J. Collins III, “Termination Rights Under the 1976 Copyright Act,” *N.Y.L.J.*, Mar. 11, 2014, at 4 (“Just as the record business has been staggering back to its feet after the digital piracy debacle, another hard blow to the record industry business model is lurking just around the corner. Recording artists and songwriters are now entitled to terminate their contractual transfers and demand back control of their copyrights; songwriters can demand return of their musical compositions from music publishers and recording artists; and record producers can demand return of their sound recordings from the record companies.”) (“Back when the 1976 Copyright Act was drafted, few would have envisioned a world where the artists might not need the record companies to finance, manufacture, warehouse and distribute their records. The expectation was that, although any particular artist could exercise the termination right, what would effectively happen is that the label and artist would simply be forced to renegotiate a deal to continue working together (either with the artist or the artist’s heirs). Now, in the current digital transmission age, this relationship is no longer necessary. Any artist can demand back the copyright in the masters and then simply offer them directly to fans on the artist’s own website or license the rights to an online aggregator or digital streaming service with little or no expense.”).

See generally Larry Rohter, “A Copyright Victory, 35 Years Later,” *N.Y. Times*, Sept. 11, 2013, at C1, C7 (“Song publishing and record companies have consistently opposed artists’ efforts to invoke termination rights, which have the potential to affect a company’s bottom line severely. They argue that, in many cases, songs and recordings belong to them in perpetuity, rather than to the artists, because they are ‘works for hire,’ created not by independent contractors but by artists who are, in essence, their employees. That was initially one of the arguments invoked against Mr. Willis [Victor Willis, writer of the lyrics for YMCA and *In the Navy* and former lead singer for the Village People] in Federal District Court in Los Angeles. ‘We hired this guy,’ Stewart L. Levy, a lawyer for the companies that controlled the Village People song catalog, said last year. ‘He was an employee. We gave them the material and a studio to record in and controlled what was recorded, where, what hours and what they did.’”).

<sup>43</sup> *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 750-51 (1989) (since sculptor was an independent contractor of nonprofit organization under general principles of agency law and parties did not enter into a written agreement, sculpture that depicted the plight of the homeless for a Christmas display was not a work made for hire; although the organization controlled a sufficient portion of the sculptor’s work to ensure that the sculpture met the organization’s specifications, the extent

ployee prepared the work, the court then determines whether the work was made within the scope of his or her employment.<sup>44</sup>

Courts consider the following thirteen nonexhaustive factors to determine employee status:

- (1) the hiring party's right to control the manner and means by which the product is accomplished;
- (2) the skill required;
- (3) the source of the instrumentalities and tools;
- (4) the location of the work;
- (5) the duration of the relationship between the parties;
- (6) the extent of the hired party's discretion of when and how long to work;
- (7) the method of payment;
- (8) the provision of employee benefits;
- (9) whether the hiring party is in business;
- (10) whether the work is part of the regular business of the hiring party;
- (11) whether the hiring party has the right to assign additional projects to the hired party;
- (12) the hired party's role in hiring and paying assistants; and
- (13) the tax treatment of the hired party.<sup>45</sup>

In *Aymes v. Bonelli*,<sup>46</sup> the Second Circuit held that the most significant five factors in determining employee status are: (1) the hiring party's right to control

of control that the organization exercised over the details of the work was not controlling; the sculptor supplied his own tools, and worked in his own studio in Baltimore, which made daily supervision of his work from Washington practically impossible; aside from the deadline for completion of the work, the sculptor determined when and how long to work; the sculptor had complete discretion in hiring and paying assistants; the sculptor was retained for less than two months, and during and after this period the organization did not have any right to assign the sculptor other projects; the organization paid the sculptor \$15,000, which was dependent on completion of the work; the organization did not pay payroll or social security taxes, provide employee benefits, or contribute to unemployment insurance or workers' compensation programs; and creating sculptures was not a regular business of the organization).

See also Alexandra Duran, "Community for Creative Non-Violence v. Reid: The Supreme Court Reduces Predictability by Attributing an Agency Standard to the Work for Hire Doctrine of the 1976 Copyright Act," 56 *Brook. L. Rev.* 1081 (1990); Katherine B. Marik, "Community for Creative Non-Violence v. Reid: New Certainty for the Copyright Work for Hire Doctrine," 18 *Pepp. L. Rev.* 589 (1991); Nancy Barbara Morris, "Community for Creative Non-Violence v. Reid: An Incomplete Resolution of the Work for Hire Controversy," 11 *Pace L. Rev.* 167 (1990); Jennifer Sutherland Lubinski, "The Work for Hire Doctrine Under *Community for Creative Non-Violence v. Reid*: An Artist's Fair Weather Friend," 46 *Cath. U. L. Rev.* 119 (1996).

<sup>44</sup> *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 750-51 (1989).

<sup>45</sup> *Id.* The first ten factors come from the Restatement (Second) of Agency § 220(2).

<sup>46</sup> 980 F.2d 857, 861 (2d Cir. 1992).

the manner and means of creation; (2) the skill required; (3) the provision of employee benefits; (4) the tax treatment of the hired party; and (5) whether the hiring party has the right to assign additional projects to the hired party. The Second Circuit also held that employee benefits and tax treatment carry the most weight. It would be inequitable for the hiring party to treat the hired party as an independent contractor for benefits and payroll tax purposes, yet treat that person as an employee for copyright purposes.<sup>47</sup>

<sup>47</sup> *Id.* at 863; see also *Kirk v. Harter*, 188 F.3d 1005, 1008-09 (8th Cir. 1999) (computer programmer was an independent contractor when the hiring party did not provide employee benefits and pay social security taxes; these factors outweighed the other factors that the programmer traveled with the company's president to clients, attended trade shows wearing a company uniform, spent a large amount of time at the company's offices, and the company controlled his hours); *Hi-Tech Video Prods., Inc. v. Capital Cities/ABC, Inc.*, 58 F.3d 1093, 1096-97 (6th Cir. 1995).

For start-up technology companies that operate informally, the employee benefits and payroll tax factors may not always be controlling. Compare *JustMed, Inc. v. Byce*, 600 F.3d 1118, 1128 (9th Cir. 2010) (programmer who wrote source code for an artificial larynx was an employee; programmer was paid a monthly salary in stock, rather than at completion of the specific project; this compensation arrangement was the same as the programmer's employee predecessor; company's failure to comply with employment reporting requirements and its lack of control over how the programmer created the source code were not controlling; "JustMed's treatment of Byce with regard to taxes, benefits, and employment forms is more likely attributable to the start-up nature of the business than to Byce's alleged status as an independent contractor;" the nature of the business and the work meant that the programmer's ability to set his own hours and work from home were not particularly relevant; as a programmer, Byce could ply his craft at any time and from any place without any significant impairment to its quality or his ability to meet JustMed's needs; "Insofar as JustMed did not comply with federal and state employment or tax laws, we do not excuse its actions, but in this context the remedy for these failings lies not with denying the firm its intellectual property but with enforcing the relevant laws") and *JAH IP Holdings, LLC v. Mascio*, No. 1:13-cv-02195, 2014 BL 327956 (D. Colo. Nov. 19, 2014) (Jason Hall, developer of Tau software application to automate investment and trading strategies, was an employee of DP Research and software was a work made for hire; Hall was paid a salary in the beginning of 2012, but on the advice of DP Research's CPA, in October 2012 Hall was paid a percentage of DP Research's revenues; employment taxes were not withheld from the payments of the percentage of revenues; Hall used DP Research's computers and offices to create the software, and its subscription to a service that provided the data stream analyzed by the software; Hall tendered the software to DP Research for its use in the hopes that it would assist him in demonstrating his worth and negotiating for a greater stake in the company; failure to make payroll withholdings, although indicative of somewhat shady employment practices, was "more of a reflection on the sophistication of the business entity, rather than indicia of an independent contractor arrangement") with *Woods v. Resnick*, 725 F. Supp. 2d 809 (W.D. Wis. 2010) (writer of source code for a web-based software program used in the auto finance industry was not an employee but an equal co-owner of the business; source code was primarily produced by the writer, who worked full-time from home on his own computer and set his own hours; writer received a monthly draw against future distributions of profits and a K-1; employees in sales and marketing received wages and W-2 statements).

See generally Ryan Vacca, "Work Made for Hire – Analyzing the Multifactor Balancing Test," 42 *Fla. St. L. Rev.* 197,

In determining whether a work made for hire comes within the scope of the employee's employment, courts also look to agency law.<sup>48</sup> The Restatement (Second) of Agency<sup>49</sup> provides the following test for determining whether an employee's work comes within the scope of his or her employment:

(1) Conduct of a servant is within the scope of employment if, but only if:

(a) it is of the kind he is employed to perform;<sup>50</sup>

(b) it occurs substantially within the authorized time and space limits;<sup>51</sup> [and]

253-54 (Fall 2014) (“[I]f a hiring party seeks initial ownership of the copyright, it will be best advised to withhold income taxes and issue a W-2 rather than a 1099, provide employee benefits such as life and health insurance, and pay the hired party at regular intervals. To further ensure a work made for hire result, the hiring party could also include a provision in the agreement that reserves the right for the hiring party to assign additional projects to the hired party. And although difficult to control in some circumstances, the hiring party should provide as many of the tools as possible. . . . Likewise, for attorneys representing hired parties who would like to retain initial ownership – to take advantage of the termination of transfer provisions or to further exploit the copyright – they should insist on the hiring party not withholding taxes and issuing a 1099, refuse insurance coverage, and demand payment upon completion of projects or portions of projects. Submitting invoices to the hiring party upon completion would be a wise practice to adopt. Moreover, resisting a provision to accept additional projects and actually refusing additional projects until a new agreement is established for a new project will place the hired party in a strong position to argue that she is an independent contractor.”)

<sup>48</sup> See *U.S. Auto Parts Network, Inc. v. Parts Geek, LLC*, 692 F.3d 1009, 1015 (9th Cir. 2012); *Mattel, Inc. v. MGA Entm't, Inc.*, 616 F.3d 904 (9th Cir. 2010); *Avtec Sys., Inc. v. Peiffer*, 21 F.3d 568, 571 (4th Cir. 1994); *Easter Seal Soc'y v. Playboy Enters.*, 815 F.2d 323, 335 (5th Cir. 1987) (“‘scope of employment’ is virtually a term of art in agency law”).

<sup>49</sup> Restatement (Second) of Agency § 228 (1958).

<sup>50</sup> See also Restatement (Second) of Agency § 228 cmt. b (1958) (“Proof that the actor was in the general employment of the master does not of itself create an inference that a given act done by him was within the scope of employment. If, however, it is also proved that the act tended to accomplish an authorized purpose and was done at an authorized place and time, there is an inference that it was within the scope of employment.”).

<sup>51</sup> See also *Fleurimond v. New York Univ.*, 876 F. Supp. 2d 190, 206-208 (E.D.N.Y. 2012) (since employee's compensation was not tied to where or when she did her work, performance of a substantial amount of her work from home using her own computer came substantially within authorized time and space limits); *Genzmer v. Pub. Health Tr. of Miami-Dade County*, 219 F. Supp. 2d 1275, 1282 (S.D. Fla. 2002) (although research fellow employed at a hospital wrote software for a program to computerize Department consultation reports in his home using his home computer during off-duty hours, the work occurred substantially within authorized time and space limits; during the research period, fellows normally would not be at the hospital seeing patients; rather they would be working on their projects primarily outside of the department; employee tested the program by conducting the beta phase in the Department at the hospital; as a result of his observations during the beta phase, employee made changes to the program; “What matters is that Gensler performed the work during the time period in which he was employed by the Trust to complete the research program”); *Marshall v. Miles Labs, Inc.*, 647 F. Supp. 1326, 1330 (N.D. Ind. 1986) (“Neither case law nor the legislative history suggests that a person can avoid the ‘work made for hire’ doctrine merely by preparing the work

(c) it is actuated, at least in part, by a purpose to serve the master.<sup>52</sup>

(2) Conduct of a servant is not within the scope of employment if it is different in kind from that authorized, far beyond the authorized time or space limits, or too little actuated by a purpose to serve the master.<sup>53</sup>

during nonworking hours or in a facility not controlled by the employer. The mere fact that preparations were done outside an employee's office or normal working hours does not remove such preparations from the scope of employment.”)

<sup>52</sup> See Restatement (Second) of Agency § 236 cmt. b (1958) (“The fact that the predominant motive of the servant is to benefit himself or a third person does not prevent the act from being within the scope of employment[] if the purpose of serving the master's business actuates the servant to any appreciable extent. . . .”); *Genzmer v. Pub. Health Tr. of Miami-Dade County*, 219 F. Supp. 2d 1275, 1282-83 (S.D. Fla. 2002) (under the Restatement, the work must be motivated at least in part to serve the master; employee's sole motivation need not be to serve the employer; rather the motivation need only be partial); *City of Newark v. Beasley*, 883 F. Supp. 3, 9 (D.N.J. 1995) (employer need only show that employee's motivation as appreciably motivated by the desire to further the employer's goal).

When the work comes within the employee's assigned duties and is prepared within the authorized time and space limits, there is an inference that the employee is motivated to serve the employer. Restatement (Second) of Agency § 235 cmt. a (1958).

See also *Food Lion Inc. v. Capital Cities/ABC Inc.*, 946 F. Supp. 420 (M.D.N.C. 1996) (undercover taping of allegedly unsanitary practices at a supermarket was not part of employees' normal employment duties and was not motivated by a desire to serve the employer), *aff'd per curiam*, 116 F.3d 472 (4th Cir. 1997).

<sup>53</sup> For examples of cases finding that the employee's work was within the scope of employment, see *Lewis v. Activision Blizzard, Inc.*, 634 F. App'x 182 (9th Cir. 2015) (baby murloc recordings were a work made for hire, and that all three prongs of the test of the Restatement (Second) of Agency were satisfied; as to the prong of the kind of work the employee was employed to perform, the Game Masters Training Manual stated that one of the employee's duties was to assist with the creation of content during the ever ongoing development of the World of Warcraft game; even if the employee's day-to-day duties primarily consisted of customer service within World of Warcraft, that did not mean that her duties did not also include assisting with the creation of content; furthermore, the employee was paid her hourly rate for the time that she spent in the recording studio; Blizzard, her employer, had at least some control over the content of the recordings, the recordings were created specifically for World of Warcraft, and the employee's supervisor praised her work on the recordings in the employee review form; as to the prong of the time and space limits of employment, the recordings took place in Blizzard's studio, on Blizzard's recording equipment, using Blizzard's software, and at the direction of a Blizzard employee; as to the prong of the work being actuated for the employer, the employee created the recordings at Blizzard's request; even if the employee contributed to the recordings to advance her own interests, she also did so to contribute to World of Warcraft); *Shaul v. Cherry Valley-Springfield Cent. Sch. Dist.*, 363 F.3d 177 (2d Cir. 2004) (court applied Restatement (Second) of Agency to find that homework problems and tests created by a high school teacher were a work made for hire; since preparing materials for class was the type of work the teacher was employed to perform, the first prong of the test was satisfied; since a teacher's duties involved a substantial amount of time outside of class to prepare lessons, problem sets, and tests, the second prong of the test was satisfied; since the teacher was motivated to spend the time to prepare class materials to fulfill his duties as a teacher,

the third prong of the test was satisfied); *Fleurimond v. New York Univ.*, 876 F. Supp. 2d 190 (E.D.N.Y. 2012) (scope of employment test of the Restatement (Second) of Agency was satisfied; since employee of the NYU Athletic Department was employed to create promotional materials, a request to assist in creating a new mascot, the Orion, to promote the Athletic Department was related to her employment, especially when NYU controlled the creation of the Orion mascot and non-Orion mascots; since employee's compensation was not tied to where or when she did her work, performance of a substantial amount of her work from home using her own computer came substantially within authorized time and space limits; employee was motivated in part to serve NYU's interest when the employee created the design at NYU's request, made changes to the design at NYU's request, and delivered the design to NYU with the hope and intention that NYU would use it); *Molinelli-Freytes v. Univ. of Puerto Rico*, No. 3:09-cv-01655, 2012 BL 263492 (D.P.R. Sept. 30, 2012) (scope of employment test of the Restatement (Second) of Agency was satisfied; proposal for a new graduate program developed by professors at the University of Puerto Rico was a work made for hire; the professors' status as University employees, their job descriptions, and an assessment of the regular duties of University faculty showed that the proposal was the type of work that they were employed to perform; since professors created the proposal at the university and at home, and the University gave faculty the flexibility to work at home and on evenings and weekends, the proposal was created within authorized time and space limits; professors were motivated by a desire to further the University's interests as they designed the proposal with the intent of submitting it to the approval process and actually did so); *Genzmer v. Pub. Health Tr. of Miami-Dade County*, 219 F. Supp. 2d 1275, 1281 n. 6 (S.D. Fla. 2002) (scope of employment test under Restatement (Second) of Agency was satisfied; organization of Department information into a computer program by a research fellow employed at a hospital was part of completing a research program and organizing and directing the Pulmonary Care Department, which were tasks that the employee was hired to perform; employee tailored the computer program to fit the hospital's needs; supervisor referred the employee to preprinted forms used by the hospital to implement into the software, told the employee how the finished product should look, and directed him to add and delete certain items in the final form; "The fact that Genzmer received positive employment reviews as a result of his development of the computer programs also is strong support for the Trust's contention that the work was of the kind Genzmer was employed to perform"); *Miller v. CP Chemicals, Inc.*, 808 F. Supp. 1238 (D.S.C. 1992) (scope of employment test under Restatement (Second) of Agency was satisfied; supervisory employee responsible for organizing and updating a laboratory wrote a computer software program that computed complex mathematical calculations and eliminated manual calculations previously used; employee performed majority of work on employee's computer at home outside of normal working hours; court found that act of creating software was incidental to employee's job duties; work occurred within the authorized time and space limits because employee was working for the employer at the time he created the software; since employee created the program to simplify his job, it was created with a purpose to serve the employer).

For examples of cases finding that the employee's work was not within the scope of employment, see *Quinn v. City of Detroit*, 988 F. Supp. 1044 (E.D. Mich. 1997) (scope of employment test under Restatement (Second) of Agency was not satisfied; attorney for law department of City of Detroit was responsible for managing the cases assigned to him personally and the cases assigned to the attorneys he supervised; attorney purchased an off-the-shelf data management software package, installed it on his home computer, and designed a litigation management software program; court found that designing computer programs was not the type of work the attorney

Since Europe and other jurisdictions do not recognize the work made for hire doctrine, and in those jurisdictions that recognize the doctrine an employee's work product may not always come within his or her scope of employment, employers should use the following drafting approach. An employment and intellectual property agreement fully describe the employee's duties to establish the scope of employment for purposes of the work made for hire determination. The agreement should then provide that if the employee's work is not a work made for hire, the employee assigns the copyright to the employer.<sup>54</sup> Section 1.2(f)-(g) of the Model Provisions uses this approach.

The assignment must satisfy the requirements for an effective assignment under the Copyright Act. The Copyright Act requires an instrument of conveyance, or a note or memorandum of the transfer, which is in writing and signed by the owner of the rights conveyed or the owner's duly authorized agent.<sup>55</sup> In addition, the assignment must "clearly identify the deal and its basic parameters."<sup>56</sup>

was hired to perform; his job description did not require him to create computer software, his employer never requested him to develop software, the attorney had no prior computer programming experience, and the employer had its own computer programming department to do the programming that the attorney decided to do on his own; computer program was not specific to the employer's law department, and could be used in any law office, claims office, or law department; attorney created the software outside the authorized time and space limits of his position; while the attorney may have spent numerous hours installing, using, and maintaining the software at work, it was not the time he spent creating the software); *Roeslin v. District of Columbia*, 921 F. Supp. 793 (D.D.C. 1995) (scope of employment test under the Restatement (Second) of Agency was not satisfied; labor economist developed a computer software system by purchasing a computer and software with his own funds and spent nearly 3,000 hours outside the office developing the system; court found that computer programming was not the type of activity commonly done by labor economists, the employer never asked the employee to develop a program, and employee's supervisor discouraged employee from developing the software; since work occurred outside the office for 3,000 hours, the work did not occur substantially within authorized time and space limits; employee's primary motivation was not to benefit his employer, but to show his employer that the work could be done, and to create job opportunities for himself).

<sup>54</sup> See, e.g., Llewellyn Joseph Gibbons, "Tech Transfer: Everything (Patent) is Never Quite Enough," 48 *U. Louisville L. Rev.* 843, 870 (Summer 2010) ("The first choice of any university should be to create a scope of employment so that the university is the author of copyrighted works that relate to university-owned innovation. The second choice should be individually signed agreements with faculty members, acknowledging that the copyrighted work was created as a work made for hire and in the alternative assigning the copyright in the work to the university.")

<sup>55</sup> 17 U.S.C. § 204(a); *Radio Television Espanola S.A. v. New World Entm't, Ltd.*, 183 F.3d 922, 929 (9th Cir. 1999).

<sup>56</sup> *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 564 (2d Cir. 1995) (assignment in legend on back of check in which payee assigned "all right, title and interest" in a painting was ineffective when the assignment did not use the word "copyright," and evidence conflicted as to whether parties intended to assign the copyright or a one-time reproduction right), cert. denied, 516 U.S. 1010 (1995); *Woods v. Resnick*, 725 F. Supp. 2d 809, 826 (W.D. Wis. 2010); *Weinstein Co. v. Smokewood Entm't Grp.*, 664 F. Supp. 2d 332, 342 (S.D.N.Y. 2009).

A contract with a third-party is insufficient to assign a copyright to another person. For example, when the author of source code signed a service agreement with a third-party, signed the agreement on behalf of a software company, and the agreement reserved rights in the code to the software company, the agreement was an insufficient assignment of the copyright to the software company. It was also insufficient when the software company's website stated that it was the sole and exclusive owner of the copyrights on the website. An effective assignment required an agreement between the author and the software company.<sup>57</sup>

When an employer acquires a copyright by assignment, rather than as a work made for hire, the employer does not obtain the statutory benefits of a work made for hire.<sup>58</sup>

When a work is not made for hire, the critical issue in negotiating the employee's assignment obligation is whether the obligation applies only to works within the scope of the employee's employment, or also to works within the scope of the employer's business or reasonably anticipated business. If the assignment applies only to works within the scope of the employee's employment, the assignment mirrors the work made for hire doctrine. In this situation, the assignment can define the scope of employment, and has its greatest effect in jurisdictions that do not recognize the work made for hire doctrine.

If the assignment applies to works within the scope of the employer's business or reasonably anticipated business, the assignment has its greatest effect on works that are outside the scope of the employee's employment, and in jurisdictions that do not recognize the work made for hire doctrine.

The state law of contracts plays an important role in construing assignments of copyright.<sup>59</sup>

*See also Cooper v. Harvey*, No. 3:14-cv-4152-B, 2016 BL 271620 (N.D. Tex. Aug. 21, 2016) (videographer Joseph Cooper and comedian Steve Harvey entered into a contract in 1993 for Cooper to make videotapes of Harvey's performances at the Steve Harvey Comedy House in Dallas, Texas; contract provided for Cooper to produce videotapes of "promotional material" that "will be looped for continuous play before, during and after show performances;" contract also provided that the "studio reserves the right to use the original tape and/or reproductions for display, publication or other purposes. Original videotapes remain the exclusive property of the studio;" in denying Harvey's motion for summary judgment that Harvey was the owner of the videotapes and that he never granted Cooper ownership rights, the court held, "These two provisions raise the question of whether the parties intended for the videos Cooper made to be used as promotional materials for the Comedy House, for Cooper to be able to release and sell the tapes himself, or, perhaps, both. All three are reasonable interpretations, but the Court cannot say which, if any, the parties intended. This makes the contract ambiguous;" parol evidence was necessary to ascertain the parties' intentions) (footnote and citation omitted).

<sup>57</sup> *Woods v. Resnick*, 725 F. Supp. 2d 809, 825-26 (W.D. Wis. 2010).

<sup>58</sup> See discussion of the statutory benefits of a work made for hire *supra* notes 17-39 and accompanying text.

<sup>59</sup> *Atherton v. FDIC*, 519 U.S. 213, 218 (1997); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979); *Gary Friedrich Enters., LLC v. Marvel Characters, Inc.*, 716 F.3d 302, 313 (2d Cir. 2013) (court construes an agreement to assign a copyright under state law rules of contract interpretation even though the agreement's subject matter concerns issues of federal copyright law); *Roger Miller Music v. Sony/ATV Publ'g*,

The critical issue in the work for hire determination is whether the work comes within the employee's scope of employment. A provision in an employment agreement that an employee's work is made for hire is strong evidence that the work was prepared within the scope of employment.<sup>60</sup> However, the provision is unlikely to be conclusive as to whether a work was made for hire.<sup>61</sup>

477 F.3d 383, 392 (6th Cir. 2007) (court applied Tennessee law to interpret copyright assignments in publishing agreements); *Automation by Design, Inc. v. Raybestos Products Co.*, 463 F.3d 749, 753 (7th Cir. 2006) ("Although the United States Copyright Act, 17 U.S.C. §§ 101-1332, grants exclusive jurisdiction for infringement claims to the federal courts, those courts construe copyrights as contracts and turn to the relevant state law to interpret them."); *InvesSys, Inc. v. McGraw-Hill Cos., Inc.*, 369 F.3d 16, 19 n. 2 (1st Cir. 2004) (rules governing the contractual transfer of ownership of a copyright have been left for the most part to state law); *Kennedy v. Nat'l Juvenile Det. Ass'n*, 187 F.3d 690, 694 (7th Cir. 1999) (court applied Wisconsin law; "Normal rules of contract construction are generally applied in construing copyright agreements"); *Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1572 (Fed. Cir. 1997); *Yount v. Acuff Rose-Opryland*, 103 F.3d 830, 835 (9th Cir. 1996) (state contract law determines rights under assignments of copyrights); *Toledano v. O'Connor*, 501 F. Supp. 2d 127, 141 (D.D.C. 2007) (court applied California law to determine whether an assignment of copyright occurred); *P.C. Films Corp. v. Turner Entm't Co.*, 954 F. Supp. 711, 714 n. 6 (S.D.N.Y. 1997) (state contract law principles generally apply in the construction of assignments), *aff'd sub nom.*, *P.C. Films Corp. v. MGM/UA Home Video Inc.*, 138 F.3d 453 (2d Cir. 1998), *cert. denied*, 525 U.S. 1017 (1999).

*See also* 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 1.01[B][3][a] (2016) (the vast bulk of copyright contractual issues must be resolved under state law given the Copyright Act's silence in addressing how to construe ambiguous contractual language).

<sup>60</sup> *See TD Bank, N.A. v. Hill*, No. 1:12-cv-07188, 2015 BL 239060, at \*12-13 n. 10 (D.N.J. July 27, 2015) (employer's contract with publisher, Portfolio (the "Portfolio Contract") for publication of a manuscript provided, "The Author is the sole and exclusive owner of all rights granted to the Publisher in this Agreement and has not assigned, pledged, or otherwise encumbered the same;" Portfolio Contract identified the employer, Commerce Bank, as the "Author," and Portfolio as the "Publisher;" Portfolio Contract also identified Commerce Bank's CEO as the "sole author" of the manuscript; CEO signed a Guaranty that referred to the Portfolio Contract and provided, "[I] also unconditionally guarantee that the work is a work made for hire within the meaning of the United States Copyright Law and that the Author is the owner of the copyright in the Work;" the Portfolio Contract differentiated between Commerce Bank as the Author and sole and exclusive owner of the copyright, and the CEO as the literary author; under the Portfolio Contract and Guaranty, the manuscript was a work made for hire with the employer as the owner of the copyright; "Language in a written instrument such as the Guaranty that deems the work to be a work made for hire within the meaning of the Copyright Act may thus vest ownership exclusively with an employer if it is in reference to an employee, such as Mr. Hill, because such agreement merely indicates that the parties agree that the work was within the scope of employment of the employee and thus a work made for hire under copyright law").

<sup>61</sup> *See Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 291 (2d Cir. 2002) ("[T]he manner in which the parties designate the relationship is not controlling, and if an act done by one person in behalf of another is in its essential nature one of agency, the one is the agent of such other notwithstanding that he or she is not so called. Conversely, the mere use of the word 'agent' by the parties in their contract does not make one an agent who, in fact, is not such."); *Murray v. Gelderman*, 566

Accordingly, rather than state that a work is made for hire, a better approach is for the agreement to fully describe the employee's duties and thereby establish the scope of employment.

The employment agreement should also provide that the employee's duties include those that the employee performs but are not otherwise described in the agreement, and regardless of whether these duties are similar to or different from the duties described in the agreement. An employer often assigns an employee new duties not originally contemplated by the employment agreement when the employee has superior skills, or when the employer's business is doing well or is struggling to overcome adverse business conditions. In these situations, the employer wants to have the benefit of the work made for hire doctrine for the employee's new duties.

In determining whether a work of authorship is a work made for hire, section 1.2(f) of the Model Provisions broadly defines the Employee's scope of employment:

The scope of the Employee's employment means: (i) the positions and duties described in [section of employment agreement that describes the Employee's positions and duties]; (ii) the positions and duties that the Employee performs after the Effective Date for the Employer or any Related Entity and are not otherwise described in [section of employment agreement that describes the Employee's positions and duties]. The positions and duties come within this clause (ii) regardless of whether they are similar to or different from the positions and duties described in [section of employment agreement that describes the Employee's positions and duties]; (iii) any project that the Employee participates in or supervises for the Employer or any Related Entity and without regard to whether the project comes within clause (i) or (ii); or (iv) any task that the Employee performs or supervises for the Employer or any Related Entity and without regard to whether the task comes within clause (i) or (ii).<sup>62</sup>

F.2d 1307, 1310-11 (5th Cir. 1978) (work made for hire doctrine applied when a writer of a book of menus of famous New Orleans restaurants contracted for exclusive control of the book's contents but was otherwise an employee of the corporation that produced the book); *Donaldson Publ'g Co. v. Bregman, Vocco & Conn, Inc.*, 375 F.2d 639, 640-42 (2d Cir. 1967) (a composer's work was not a work made for hire when his contract with a corporation provided him with a drawing account during his "employment" but otherwise did not treat him as an employee; corporation received only the right to publish the composer's songs and not the right to share in the compensation that the composer received for writing the songs), *cert. denied*, 389 U.S. 1036 (1968).

See also 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 11.02[A][2] (2016) (when a for hire relationship does not exist, the parties may not agree that a work is deemed to be made for hire as a way to avoid the provision of 17 U.S.C. § 203(a)(5) that an author's termination right exists "notwithstanding any agreement to the contrary;" the relationship that actually exists between the parties, and not their description of that relationship, is determinative of whether a work is made for hire).

Nancy Kim, "Martha Graham, Professor Miller and the Work for Hire Doctrine," 13 *J. Intell. Prop.* 337, 345 (2006) (a work is made for hire "if it is a work prepared by an employee within the scope of employment, regardless of whether the parties have inaccurately or falsely stated that it is not") (footnote omitted).

<sup>62</sup> See also *Carol Wilson Fine Arts, Inc. v. Qian*, 71 F. Supp. 3d 1151, 1155 (D. Or. 2014) (employee was employed to create original artwork for use in the employer's greeting cards and

In the absence of provisions in an employment agreement that delineate an employee's duties, courts often look to the employee's job description. The job description carries more weight in determining the scope of employment than whether the employee created the work during work hours, or at the employer's facilities or offices.<sup>63</sup>

The importance of an employee's duties under an employment agreement in the work made for hire determination is seen in *Martha Graham Sch. & Dance Found., Inc. v. Martha Graham Ctr. of Contemporary Dance, Inc.*<sup>64</sup> Under an employment agreement with a non-profit dance center, Martha Graham served as its full-

stationary; employment contract provided that the "Employee agrees to perform the work desired by the Employer in a workmanlike manner," and "shall, at all times, provide services to Employer under Employer's control and direction;" first prong of the test under Section 228 of Restatement (Second) Agency that the employee's work is of the kind he is employed to perform was satisfied); *Four Points Comm'n Servs., Inc. v. Bohnert*, No. 4:13-cv-01003, 2014 BL 239714, at \*6 (E.D. Mo. Aug. 29, 2014) ("The Court finds that an issue of fact exists as to whether [the factor of whether the work was of the kind that the employee was employed to perform] supports a finding that the development of the SSAM technology was within the job descriptions of Defendants Cannon and Bohnert. Plaintiff [the employer] has presented evidence that Bohnert was required to do anything assigned to him, including developing the survey system as a digitalized application and that Cannon actually created the SSAM survey during his employment with Plaintiff. In turn, Defendants have presented evidence that Bohnert was in a sales position, which did not include any software development, and that Cannon was a computer draftsman, not a programmer."); *Pittsburg State Univ. v. Kansas Bd. of Regents*, 122 P.3d 336, 347 (Kan. 2005) (determination of whether a particular work of a faculty member is a work made for hire "will necessarily involve not just a case-by-case evaluation, but potentially a task-by-task evaluation").

<sup>63</sup> See *Genzmer v. Pub. Health Tr. of Miami-Dade County*, 219 F. Supp. 2d 1275, 1282 (S.D. Fla. 2002) (job description for research fellow employed at a hospital stated that "fellows will acquire skills required to organize, administer, and direct a critical care unit;" development of software for a program to computerize Department consultation reports came within this description; although the employee wrote the software in his home using his home computer during off-duty hours, the work occurred substantially within authorized time and space limits; during the research period, fellows normally would not be at the hospital seeing patients; rather they would be working on their projects primarily outside of the department; "What matters is that Genzmer performed the work during the time period in which he was employed by the Trust to complete the research program"); *Marshall v. Miles Labs, Inc.*, 647 F. Supp. 1326, 1330 (N.D. Ind. 1986) (staff scientist with the job description of "Director of Enzyme Research and Development" had the responsibilities to develop, summarize, and report information about advances in technologies of interest and maintain an awareness of the latest scientific advances in his specialty; court held that scientist's research paper came within the scope of his employment; "Neither case law nor the legislative history suggests that a person can avoid the 'work made for hire' doctrine merely by preparing the work during nonworking hours or in a facility not controlled by the employer. The mere fact that preparations were done outside an employee's office or normal working hours does not remove such preparations from the scope of employment").

<sup>64</sup> 380 F.3d 624 (2d Cir. 2004), *cert. denied*, 544 U.S. 1060 (2005). See generally Sharon Connelly, "Authorship, Ownership, and Control: Balancing the Economic and Artistic Issues Raised by the Martha Graham Copyright Case," 15 *Fordham Intell. Prop. Media & Ent. L.J.* 837 (Spring 2005); Nancy Kim,

time choreographer. Graham created her dances on the center's premises and with its resources. Her choreography was the center's regular activity. The center's board of directors urged Graham to complete as many new dances as possible, and teach only when permitted by her schedule.

Graham did not choreograph dances on commission for third-parties, nor did she receive royalties for her dances. She received a regular salary and employee benefits, and reimbursement for personal expenses, travel, and medical benefits. The center regularly withheld income and social security taxes from her salary.

The court held that the dances created by Graham during the term of her employment agreement were works made for hire that belonged to the center:

Where an artist has entered into an explicit employment agreement to create works, works that she creates under that agreement cannot be exempted from the work-for-hire doctrine on speculation about what she would have accomplished if she had not been so employed.

It is true that as the revered doyenne, Graham held remarkable sway over the Center's Board of Directors. However, Graham went to great lengths to become an employee of the Center so she could insulate herself from the legal and financial aspects of her work. As an employee, Graham could have been discharged by the Center, even though that prospect was unlikely, and, for her part, Graham could have relinquished the support of a regular salary by electing to leave the Center.

....

It is true that the Center did not exercise much control over Graham, but the absence of a hiring party's exercise of control does not mean that an artist is not an employee where other factors weigh in favor of finding an employment relationship. In *Carter v. Helmsley-Spear, Inc.*, 71 F.3d 77, 85-88 (2d Cir. 1995), we ruled that an elaborate sculpture was a work for hire under the 1976 Act despite the fact that the artists "had complete artistic freedom of the sculpture's creation," *id.* at 86.

The fact that Graham was extremely talented understandably explains the Center's disinclination to exercise control over the details of her work, but does not preclude the sort of employee relationship that results in a work for hire. The Restatement (Second) of Agency notes that there are many occupations in which the employer would not normally exercise control over the details of the employee's work. The "control or right to control needed to establish the relation of master and servant may be very attenuated." Restatement (Second) of Agency § 220(1) cmt. d (1958).<sup>65</sup>

## Patent Ownership Under Federal Law

The person who invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain the patent.<sup>66</sup> When the inventor is an em-

ployee, the employee may obtain the patent regardless of whether the employee conceived of the invention or reduced it to practice in the course of employment.<sup>67</sup>

There are two exceptions to this rule: (1) written assignment of ownership of the invention by the employee-inventor to the employer; and (2) an employee hired to invent. In addition, an employer may obtain a shop right in an employee's invention for which the employee obtains the patent.

First, the inventor who initially owns the invention can transfer ownership by written assignment.<sup>68</sup> Accordingly, an employer can acquire an employee's invention and the related patent rights by the employee's written assignment to the employer in a preinvention assignment agreement.<sup>69</sup> The employer as the assignee can then apply for the patent.<sup>70</sup>

the original inventor or an original joint inventor of a claimed invention).

<sup>67</sup> *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 563 U.S. 776, 789 (2011) ("We have rejected the idea that mere employment is sufficient to vest title to an employee's invention in the employer."); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 189 (1933); *Banks v. Unisys Corp.*, 228 F.3d 1357, 1359 (Fed. Cir. 2000); *Teets v. Chromally Gas Turbine Corp.*, 83 F.3d 403, 407-408 (Fed. Cir. 1996), *cert. denied*, 519 U.S. 1009 (1996); *Wommack v. Durham Pecan Co.*, 715 F.2d 962, 965 (5th Cir. 1983); *Skycam, LLC v. Bennett*, 900 F. Supp. 2d 1264 (N.D. Okla. 2012); *Aero Bolt & Screw Co. of California v. Iaia*, 5 Cal. Rptr. 53 (Cal. Ct. App. 1960) (employer-employee relationship is insufficient by itself to entitle employer to partake of the benefits of the employee's inventive genius); *Scott Sys. Inc. v. Scott*, 996 P.2d 775, 778 (Colo. Ct. App. 2000); *Liggett Grp. Inc. v. Sunas*, 437 S.E.2d 674, 678 (N.C. Ct. App. 1983) (mere employment alone "does not endow an employer with exclusive ownership rights to an invention, even though the invention may occur during working hours").

<sup>68</sup> 35 U.S.C. §§ 151 ("Patents may be granted to the assignee of the inventor of record in the Patent and Trademark Office, upon application made and the specification sworn to by the inventor, except as otherwise provided in this title.") and 261 ("Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing."); *Sky Techs. LLC v. SAP AG*, 576 F.3d 1374, 1379 (Fed. Cir. 2009) ("The Federal Patent Act requires that all assignments of patent interest be in writing."); *cert. denied*, 559 U.S. 1048 (2010); *Akazawa v. Link New Tech. Int'l, Inc.*, 520 F.3d 1354, 1357 (Fed. Cir. 2008).

<sup>69</sup> *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 563 U.S. 776, 786 (2011) ("In most circumstances, an inventor must expressly grant his rights in an invention to his employer if the employer is to obtain those rights."); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933) ("The respective rights and obligations of employer and employee, touching an invention conceived by the latter, spring from the contract of employment."); *Banks v. Unisys Corp.*, 228 F.3d 1357, 1359 (Fed. Cir. 2000) (an employer owns an employee's invention when the employee is a party to an express contract to that effect); *Univ. Patents, Inc. v. Kligman*, 762 F. Supp. 1212, 1219 (E.D. Pa. 1991); *Monsanto Chem. Works v. Jaeger*, 31 F.2d 188, 193 (W.D. Pa. 1929) ("Where the product of an inventive mind is sought to be appropriated under an agreement to assign to another, the language of the agreement must be clear and show an unmistakable intention that the particular matter covered by the invention or patent is within the intention of the parties.")

<sup>70</sup> 35 U.S.C. § 118 ("A person to whom the inventor has assigned or is under an obligation to assign the invention may make an application for patent. A person who otherwise shows sufficient proprietary interest in the matter may make an application for patent on behalf of and as agent for the inventor

"Martha Graham, Professor Miller and the Work for Hire Doctrine," 13 *J. Intell. Prop.* 337 (2006).

<sup>65</sup> 380 F.3d at 640, 642.

<sup>66</sup> 35 U.S.C. § 101; *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 563 U.S. 776, 785-86 (2011); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 188 (1933); *Solomons v. United States*, 137 U.S. 342, 346 (1890); *Gayler v. Wilder*, 51 U.S. 477, 493 (1851).

See also 35 U.S.C. §§ 111(a)(2)(C) (a patent application must include the oath or declaration as prescribed by Section 115) and 115(b)(2) (the oath or declaration in a patent application must state that individual believes himself or herself to be

Second, in the absence of a written preinvention assignment agreement, an employee's invention belongs to the employer if the employee is hired to invent. An employee is hired to invent when the employer contemplates the discovery of an invention, and the employee should reasonably understand that the inventions resulting from his or her employment would belong to the employer.<sup>71</sup> Research scientists and design engineers are often hired to invent.

on proof of the pertinent facts and a showing that such action is appropriate to preserve the rights of the parties. If the Director grants a patent on an application filed under this section by a person other than the inventor, the patent shall be granted to the real party in interest and upon such notice to the inventor as the Director considers to be sufficient.”)

<sup>71</sup> *Std. Parts Co. v. Peck*, 264 U.S. 52, 58-60 (1924) (employment contract provided for employee to “devote his time to the development of a process and machinery for the production of the front spring now used on the product of the Ford Motor Company;” contract provided for a completion date and a bonus tied to completion); *Solomons v. United States*, 137 U.S. 342, 345-46 (1890); *Banks v. Unisys Corp.*, 228 F.3d 1357, 1359-60 (Fed. Cir. 2000) (when an employee is hired to invent something or solve a particular problem, the invention resulting from the employee's work belongs to the employer; court reversed district court's grant of summary judgment in favor of employer that employee was hired to invent; employee's refusal to sign agreements assigning his inventions at the beginning and end of his employment supported a reasonable inference that the employer acquiesced to the employee's refusal to assign ownership of his inventions); *Teets v. Chromally Gas Turbine Corp.*, 83 F.3d 403, 407-09 (Fed. Cir. 1996) (when an employer specifically hires or directs the employee to exercise inventive faculties, the purpose for employment focuses on invention; accordingly, the employee bargains for and receives a salary in exchange for inventing; upon receipt of the salary, the employee receives full compensation for his or her inventive work so that the employee, now fully compensated, is not also entitled to ownership of the invention; employee spent 70% of his time on an improved leading-edge fan blade for a new General Electric aircraft engine), *cert. denied*, 519 U.S. 1009 (1996); *B.F. Gladding & Co. v. Scientific Anglers*, 248 F.2d 483, 485 (6th Cir. 1957) (employee was hired to invent when employment involved “solving a defined problem,” or to “evolve a process or mechanism for meeting a specific need”); *E.F. Drew & Co. Inc. v. Reinhard*, 170 F.2d 679, 683-84 (2d Cir. 1948); *Houghton v. United States*, 23 F.2d 386 (4th Cir. 1928); *Legacy Seating, Inc. v. Commercial Plastics Co.*, 65 F. Supp. 3d 542 (N.D. Ill. 2014); *St. Louis & O'Fallon Coal Co. v. Dinwiddie*, 53 F.2d 655, 662 (D. Md. 1931), *aff'd*, 64 F.2d 303 (4th Cir. 1933).

*State v. Neal*, 12 So. 2d 590, 591 (Fla. 1943), *cert. denied*, 320 U.S. 183 (1943); *Nat'l Dev. Co. v. Gray*, 55 N.E.2d 783, 787 (Mass. 1944); *Steranko v. Inforex, Inc.*, 5 Mass. App. Ct. 253, 269 (1977) (“The law of this jurisdiction recognizes that even in the absence of specific contract provisions an employer may be entitled to the inventions of employees hired to direct or to engage in inventive research.”); *Quaker State Oil Refining Co. v. Talbot*, 174 A. 99 (Pa. 1934) (under oral employment contract employer hired employee as a salaried employee for the specific purpose of designing a nonrefillable oil drum; employee was hired to invent); *Liggett Grp. Inc. v. Sunas*, 437 S.E.2d 674, 678 (N.C. Ct. App. 1983) (“[A]bsent contrary agreement, the employer owns an invention if: (1) the employee is ‘hired to invent, accomplish a prescribed result, or aid in the development of products,’ or (2) the employee is set to experimenting with the view of making an invention and accepts payment for such work.”).

See also Robert A. Kreiss, “The ‘In Writing’ Requirement for Copyright and Patent Transfers: Are the Circuits in Conflict?” 26 *Dayton L. Rev.* 43, 75 n. 153 (Fall 2000) (“Virtually all of the litigated hired-to-invent cases involved [the par-

When the employer narrowly directs employee's work toward the resolution of a specific problem, the employee is hired to invent.<sup>72</sup> The hired to invent rule applies regardless of whether the employee develops the invention in the employee's home and on his or her own time, or at the employer's facilities.<sup>73</sup>

ties having different perceptions or recollections of what the terms of their agreement were.] Assuming that the litigants tell the truth, they are litigating because of different understandings of the terms of employment. Perhaps this was because the parties failed to express themselves clearly. Perhaps this was because of a fear that such a discussion might lead to the failure of the parties to reach agreement on employment. The employer might be afraid that the employee will reject the firm's offer if the employer comes right out and says, ‘You will have to assign all patents to the firm.’ Might the employer try to soft-pedal the issue by saying something like, ‘When you invent things, of course the firm will have the rights to use those inventions?’ The employer thinks she is saying that the firm will own all patent rights. The engineer might hear those same words and think that the firm is only asking for a license to use the invention without further royalty. Same words, different interpretations. And, the problem is that several years later, if the issue is litigated, neither may recall the exact words, but the employer might testify in good faith that they orally agreed to an assignment, while the engineer might testify in equally good faith that they orally agreed to a license. Requiring a writing forces the parties to directly confront the issue and clarify their thinking. They cannot hide behind ambiguous words. They have to risk having the other party say that the deal is off.”)

Sean M. O'Connor, “Hired to Invent vs. Work Made For Hire: Resolving the Inconsistency Among Rights of Corporate Personhood, Authorship, and Inventorship,” 35 *Seattle U. L. Rev.* 1227, 1240 (2012) (the challenge with the hired to invent rule “is the evidentiary support required of employers to show that an employee was specifically hired to invent a kind of good or service”).

<sup>72</sup> See *Skycam, LLC v. Bennett*, 900 F. Supp. 2d 1264 (N.D. Okla. 2012) (the primary factor in determining whether an employee was hired to invent is the specificity of the task assigned to the employee); *Cahill v. Regan*, 157 N.E.2d 505, 508 (N.Y. 1959) (“If an employee is hired to invent or is given the task of devoting his efforts to a particular problem, the resulting invention is the employer's, and any patent obtained by the employee must be assigned to the other.”).

See also 8 Donald S. Chisum, *Chisum on Patents* § 22.03[2] (2016) (the primary factor in determining whether an employee was hired to invent is the specificity of the task assigned to the employee; employment to generally improve or design products is usually not specific enough; other evidentiary factors are: (1) previous assignments of patents on other inventions by the employee; (2) a customary practice within the company for other similarly situated employees to assign; (3) whether the invention was conceived during the period of employment; (4) who originally posed the problem solved by the invention; (5) the employee's authority within the company to determine to whom to give a problem for solution; (6) the relative importance of the idea to the employer's business; (7) a previous inconsistent position on inventorship by the employer; (8) an agreement by the employer to pay royalties to the employee; (9) payment of patent procurement expenses by the employer or employee; and (10) the absence of initial interest by the employer when the employee first presented the idea).

<sup>73</sup> *Nat'l Dev. Co. v. Gray*, 55 N.E.2d 783, 787 (Mass. 1944) (“If the employee fails to reach his goal the loss falls upon the employer, but if he succeeds in accomplishing the prescribed result then the invention belongs to the employer even though the terms of employment contain no express provision dealing with the ownership of whatever inventions may be developed;” although the invention was made in the employee's home and

When an employee is hired to invent in one area does not mean that the employee is hired to invent in another area.<sup>74</sup> Furthermore, when the scope of an employee's work is generalized within a field, the employee is not hired to invent.<sup>75</sup>

on his own time, it came within the scope of his employment and belonged to the employer no less than if it was made at the employer's shop).

<sup>74</sup> See *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187-88 (1933) (two engineers were employed by the Bureau of Standards as research scientists in the radio section of the electrical division, and worked on problems experienced by the government and military with electrical circuitry; on their own and without direction from their employer, and using equipment at the government laboratory, they invented a power amplifier that improved alternating current circuits; since the inventions were not within the scope of the research projects assigned to the engineers, they did not have the obligation to assign their patents to their employer; a negotiated assignment was necessary for the employer to obtain title to the patents; employer had a shop right to the inventions).

<sup>75</sup> *Id.* ("But a manufacturing corporation, which has employed a skilled workman, for a stated compensation, to take charge of its works, and to devote his time and services to devising and making improvements in the articles there manufactured, is not entitled to a conveyance of the patents obtained for inventions made by him while so employed, in the absence of express agreement to that effect."); *Dalzell v. Duerber Watch Case Mfg. Co.*, 149 U.S. 315 (1893); *Teets v. Chromally Gas Turbine Corp.*, 83 F.3d 403, 407-408 (Fed. Cir. 1996) ("When an employer hires a person for general service and the employee invents on the side, the invention belongs to the employee."); *cert. denied*, 519 U.S. 1009 (1996); *Pressed Steel Car Co. v. Hansen*, 137 F. 403 (3d Cir. 1905) (employee engaged to supervise the engineering and manufacturing department was not hired to invent; when employee assumed the duty of improving the employer's products and devising and designing articles for the employer's benefit, employee did not have the obligation to assign the patents for the articles); *Peregrine Semiconductor Corp. v. RF Micro Devices, Inc.*, No. 3:12-cv-0911-H, 2014 BL 4170 (S.D. Cal. Jan. 8, 2014) (employee was not hired to solve specific problems or design specific technologies; employee worked on different products, and his responsibilities extended beyond research and development to include marketing and customer support; employee's work was generalized within the field of semiconductor development); *Voith Hydro, Inc. v. Hydro West Grp., Inc.*, 1997 WL 154400, at \*8 (N.D. Cal. March 26, 1997) (employee was not hired for the particular purpose of designing a potential flow turbine, but was hired generally as a staff engineer to work in research and development and more specifically to work on computer programs to assist in the development of hydro turbines generally).

*Banner Metals, Inc. v. Lockwood*, 3 Cal. Rptr. 421, 430 (Ct. App. 1960) (regional salesman who did not have a duty to invent, and who created a prototype, paid for the patent application with his own funds, and whose supervisor initially did not express interest in the invention, owned the invention and patent rights); *Hewett v. Samsonite Corp.*, 507 P.2d 1119, 1121-22 (Colo. Ct. App. 1973) (employee was employed as foreman of the model shop in which prototype models were fabricated from designs drawn by employer's design and engineering department; unlike other employees, employee was not required at the time of hire to sign a written agreement to assign future inventions to the employer as a condition of employment; employee on his own initiative invented or participated in the invention of three items; employee was neither hired nor paid to invent; employee owned the inventions subject to the employer's shop right); *State Bd. of Educ. v. Bourne*, 7 So. 2d 838, 841 (Fla. 1942) (employee's work as a researcher in the Everglades Experimental Station to develop new varieties of sugar cane was generalized in his field; "When an employer undertakes to

The hired to invent rule does not apply if the employee was hired to develop an invention that the employee previously conceived before beginning employment.<sup>76</sup> The rule also does not apply to inventions that the employee develops and reduces to practice after his or her employment terminates. After termination, the invention falls outside the employment relationship.<sup>77</sup>

To show that an employee is hired to invent, a written or oral agreement is not necessary; rather, an implied-in-fact contract is sufficient.<sup>78</sup> However, in light of the strong public policy of encouraging technological

establish a claim to a patent or a patentable object as against his employee who is the inventor, he must show beyond question that the employment was for that specific purpose of making the invention"); *Manton-Gaulin Mfg. Co. v. Colony*, 151 N.E. 344 (Mass. 1926) (employee was employed to supervise the construction of machines, and not to develop new machines or make improvements on existing machines; employee owned the patent on an improvement that was necessary for employer's success; employee's consultation with employer and employer's payment of expenses did not warrant a different result); *Cahill v. Regan*, 157 N.E.2d 505 (N.Y. 1959) (employee-manager owned the invention of a reusable can made on his own initiative that was suitable to the Navy, the employer's customer; employee was only a manager and was hired to design cans and can dies; employee could not have been employed to invent without an express agreement to that effect); *Mosser Indus., Inc. v. Hagar*, 200 U.S.P.Q. (BNA) 608 (Pa. Ct. Com. Pl. Jan. 11, 1978) (employee who was not employed to invent a specific line of products, and served as Vice-President and supervisor of engineering department, was not hired to invent).

Restatement (Second) of Agency § 397 cmt. a (1958) ("If one is employed merely to do work in a particular line in which he is an expert, there is no inference that inventions which he makes while working belong to the employer.").

See also Orly Lobel, *Talent Wants to be Free* 156-57 (Yale U. Press 2013) ("University faculty members are typically hired to conduct general research rather than research related to specific inventions or profit-oriented tasks. Therefore, the law requires an explicit transfer agreement before the university can pursue patent licensing on an employee's invention. The vast amounts of money and academic prestige at stake have led most research centers to turn to employment agreements as a way to resolve potential disputes before they ignite. The current approach to tech-transfer policies, however, varies widely between universities. Some universities have adopted more faculty-friendly standards. For example, Harvard, MIT, and Johns Hopkins University require transfer only when the academic inventor has made extensive use of the university's resources and facilities. Under this type of agreement, in which the invention is not the product of a specific inventive task, the patent rights remain with the inventor unless they were developed with significant use of university resources, although, as you can imagine the term *significant use* is often vaguely defined and receives conflicting interpretation.") (footnotes omitted).

<sup>76</sup> *Cahill v. Regan*, 157 N.E.2d 505, 508 (N.Y. 1959) ("[A] direction to an employee to develop an idea which he already conceived on his own is not a direction to invent and does not entitle the employer to the invention or the patent on it.").

<sup>77</sup> *White's Elecs., Inc. v. Teknetics, Inc.*, 677 P.2d 68 (Or. Ct. App. 1984) (electrical engineer hired to invent new metal detector technology and whose idea for target-identification did not crystallize into a definite form of invention until after termination of employment did not have an obligation to assign invention to his employer).

<sup>78</sup> *Teets v. Chromally Gas Turbine Corp.*, 83 F.3d 403, 407 (Fed. Cir. 1996) (a court must examine the employment relationship at the time of the inventive work to determine whether the parties entered into an implied-in-fact contract to assign patent rights), *cert. denied*, 519 U.S. 1009 (1996); *Scott*

innovation, courts will find an implied-in-fact contract only when an invention was reasonably contemplated by the parties when they negotiated their contract of employment.<sup>79</sup>

*Sys. Inc. v. Scott*, 996 P.2d 775, 778 (Colo. Ct. App. 2000) (“If an employee’s job duties include the responsibility for inventing or for solving a particular problem that requires invention, any invention created by the employee during the performance of those responsibilities belongs to the employer. Hence, such an employee is bound to assign to the employer all rights to the invention. This is so because, under these circumstances, the employee has produced only that which he was employed to produce, and the courts will find an implied contract obligation to assign any rights to the employer.”); *State v. Neal*, 12 So. 2d 590 (Fla. 1943) (although the parties did not expressly contract in the employment agreement for the employee to invent, the employer assigned the employee to a specific project to develop a method to convert dried citrus waste into dairy feed; court found the following facts significant: (1) the employee was paid by the state from a special federal fund limited to investigations and experiments regarding agricultural products; (2) the employee devoted a majority of his time to the project; (3) the employee used state facilities; (4) the state paid all expenses in obtaining the patents; (5) the employee was given the specific task of developing a new method to dry citrus waste; (6) the employee at first attempted to obtain the patent in the employer’s name; and (7) the parties’ correspondence showed the purpose of the project was to create a new method), *cert. denied*, 320 U.S. 783 (1943).

<sup>79</sup> *Hapgood v. Hewitt*, 119 U.S. 226, 233-34 (1886) (when an employee was not expressly required by his contract to exercise his inventive faculties for his employer’s benefit, and no facts were presented from which it could fairly be inferred that he was required or expected to do so, the employee, and not the employer, owned the rights to the invention); *Barton v. Nevada Consol. Copper Co.*, 71 F.2d 381, 384 (9th Cir. 1934) (courts are reluctant to force assignments of patent rights due to the nature of the inventive act; employment to design, construct, or devise methods of manufacture is not employment to invent); *Sim Kar Lighting Fixture Co. v. Genlyte, Inc.*, 906 F. Supp. 967, 973 (D.N.J. 1995) (courts are reluctant to imply contracts to assign patent rights for fear of discouraging invention); *Nat’l Dev. Co. v. Gray*, 55 N.E.2d 783, 786-87 (Mass. 1944) (“One by merely entering an employment requiring the performance of services of a noninventive nature does not lose his rights to any inventions that he may make during the employment, although the employment might have afforded the opportunity or occasion for the conception of an idea which may lead to a patent and the rendition of services in the course of his employment may have so enhanced his mechanical skill, scientific knowledge and inventive faculties as to enable him to develop and perfect the idea into a patentable article, and this is true even if the patent is for an improvement upon a device or process used by the employer or is of such great practical value as to supersede the devices or processes with which the employee became familiar during his employment.”); *Aetna-Standard Engineering Co. v. Rowland*, 493 A.2d 1375, 1378 (Pa. Super. Ct. 1985) (“[T]he absence from the employment contract of an express agreement to assign will not preclude the employer as a matter of law from asserting a claim to the employee’s invention. Instead, a court must clearly scrutinize the employment contract, so that, absent an express contrary agreement, an employee must assign his invention to his employer if he was hired for the purpose of using his inventive ability to solve a specific problem or to design a certain procedure or device for the employer; in such a case, the invention is the precise subject of the employment contract. Given the personal, intellectual nature of the inventive process, the courts must otherwise hesitate to imply agreements to assign;” employee was hired as a general staff engineer, was not recruited specifically to design the IHI table, and did not receive any special compensation for his work on the IHI contract;

Under the hired-to-invent rule, the employer does not obtain title to the invention immediately upon its creation; rather, the employee must assign any patent that the employee obtains to the employer.<sup>80</sup>

When an employee who is not hired to invent creates or develops an invention during paid working hours or with the employer’s resources,<sup>81</sup> the employer acquires a “shop right.” The shop right is an irrevocable, royalty-free, nonexclusive, and nonassignable<sup>82</sup> license for the employer to use the employee’s invention within the normal scope of the employer’s business.<sup>83</sup> An em-

rather that work came within the normal scope of his duties as an engineer; employer asked the employee to sign the patent application as a joint inventor with his supervisor on the project; in the absence of an express written or oral agreement to assign inventions to the employer, court would not imply an agreement to assign the IHI table to the employer) (citations omitted).

<sup>80</sup> *Std. Parts Co. v. Peck*, 264 U.S. 52, 56-57 (1924); *Gellman v. Telular Corp.*, 449 F. App’x 941, 945 (Fed. Cir. 2011); *Banks v. Unisys Corp.*, 228 F.3d 1357, 1359 (Fed. Cir. 2000); *Melin v. United States*, 478 F.2d 1210, 1213 (Ct. Cl. 1973); *Nat’l Dev. Co. v. Gray*, 55 N.E.2d 783, 787 (Mass. 1944) (“If the employer contemplates the discovery of an invention and enters into a contract with another to endeavor to make the invention for the benefit of the employer and the contract, construed in light of the attending circumstances, shows that the employee must have reasonably understood that such inventions as resulted from his performance of the contract should belong to the employer, then the employee is under an implied obligation to assign any patents acquired him for said inventions to his employer.”).

<sup>81</sup> Classic examples of an employer’s resources to develop the invention are the assistance of other employees, use of the employer’s facilities or equipment, and use of the employer’s time. *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 188-89 (1933); *Kopin v. Orange Products Inc.*, 688 A.2d 130, 139 (N.J. App. Div. 1997).

<sup>82</sup> The permissibility of the assignment of shop rights in corporate transactions is not fully resolved. *See* Sean M. O’Connor, “Hired to Invent vs. Work Made For Hire: Resolving the Inconsistency Among Rights of Corporate Personhood, Authorship, and Inventorship,” 35 *Seattle U. L. Rev.* 1227, 1240 (2012) (“[Q]uestions have arisen as to whether a shop right can survive the acquisition of the firm by another firm or any other succession of ownership in which a material change of control takes place.”) (footnote omitted).

*Compare Lane & Bodley Co. v. Locke*, 150 U.S. 193 (1893) (corporation succeeded to the shop rights of its predecessor partnership when the corporation was to carry on the same business and at the same premises as its predecessor, and the corporation succeeded to all the assets and liabilities of its predecessor; in addition, the employee worked for both entities and permitted both entities to continuously use the invention) and *Calif. E. Labs., Inc. v. Gould*, 896 F.2d 400, 402 (9th Cir. 1990) (shop right is transferable on a sale of all the assets of a business) and *Neon Signal Devices, Inc. v. Alpha-Claude Neon Corp.*, 54 F.2d 793 (W.D. Pa. 1931) (corporation succeeded to shop right of the Gardner Company when the corporation acquired all the assets and liabilities of the Gardner Company and continued its business, and the Gardner Company ceased business as of the date of the transfer of assets) with *Hapgood v. Hewitt*, 119 U.S. 226 (1886) (when the original corporation entitled to the shop right dissolved and the shareholders created a new corporation, the new corporation was not entitled to the shop right).

<sup>83</sup> *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 188-89 (1933) (two employees of the radio section of the Bureau of Standards did not have to assign their patents on a power amplifier to the United States as their employer; rather the United States obtained a shop right; when an employee,

ployer acquires a shop right regardless of whether the

during his hours of employment, working with the employer's materials and appliances, conceives and perfects an invention for which the employee obtains a patent, the employee must provide the employer a nonexclusive right to use the invention; since the employee uses the employer's time, facilities, and materials to obtain a concrete result, the employer is in equity entitled to use that which embodies the employer's own property and to duplicate it as often as the employer determines appropriate in the employer's business); *Hapgood v. Hewitt*, 119 U.S. 226, 233-34 (1886); *McElmurry v. Arkansas Power & Light Co.*, 995 F.2d 1576, 1583 n. 14 (Fed. Cir. 1993) (employer had a shop right to a new fly level detector when employee developed it while working for the employer; employee recommended the new detector to the employer as an alternative to the old detectors, and consented to and participated in the installation of the new detector at the employer's facilities; employee never claimed that the employer was not allowed to use the new detector without his permission, or that the employer had to compensate him for its use; before he commenced employment employee had not taken the idea of the fly level detector beyond the concept stage by producing working drawings, building a prototype, testing it, or using it in a similar application in another facility); *Larisey v. United States*, 949 F.2d 1137, 1144 (Fed. Cir. 1991); *Wommack v. Durham Pecan Co.*, 715 F.2d 962, 965 (5th Cir. 1983); *Francklyn v. Guilford Packing Co.*, 695 F.2d 1158, 1161 (9th Cir. 1983); *Lukens Steel Co. v. Am. Locomotive Co.*, 197 F.2d 939, 940-41 (2d Cir. 1952); *Kurt H. Volk Inc. v. Found. For Christian Living*, 534 F. Supp. 1059, 1083-84 (S.D.N.Y. 1982); *Lotus Mfg. Corp. v. Nelson*, 195 U.S.P.Q. (BNA) 566, 200 U.S.P.Q. (BNA) 570 (E.D.N.Y. 1977) (employer had a shop right when employee conceived of the invention prior to employment but perfected and reduced it to practice at employer's facilities, on employer's time, and with the use of employer's other employees and materials); *Kurtzon v. Sterling Indus., Inc.*, 228 F. Supp. 696, 697 (E.D. Pa. 1964); *Tin Decorating Co. of Balt. v. Metal Package Corp.*, 29 F.2d 1006 (S.D.N.Y. 1928); *Kinkade v. New York Shipbuilding Corp.*, 122 A.2d 360 (N.J. 1956); *Kopin v. Orange Products Inc.*, 688 A.2d 130 (N.J. App. Div. 1997); *Preston v. Marathon Oil Co.*, 277 P.3d 81 (Wyo. 2012).

See also Restatement (Second) of Agency § 397 cmt. b & c (1958).

See generally Orly Lobel, *Talent Wants to be Free* 145 (Yale U. Press 2013) ("The shop right gives employers a non-exclusive right to use an invention related to the company and to which the work environment contributed even when the invention was not within the scope of the employee's duties.") (footnote omitted).

Mike Baniak & Todd Dawson, "Discussion of Employer Assignment Agreements After *DDB Technologies v. MLB Advanced Media*," 7 *Nw. J. Tech. & Intell. Prop.* 298, 301 (Summer 2009) (employer has a shop right when the employee uses the employer's equipment or facilities regardless of whether the resulting invention relates to the employer's business); Mary LaFrance, "Nevada's Employee Inventions Statute: Novel, Nonobvious, and Patently Wrong," 3 *Nev. L.J.* 88, 95 (Fall 2002) ("Under the shop right doctrine, if an employee creates an invention either on the employer's time or using the employer's resources, the employer may continue to use that invention indefinitely without the consent of the employee. Thus, the employer receives compensation for the fact that his or her resources were used to create the invention. However, because the employer did not make a creative contribution to the employee's inventive act, the employer is neither the inventor nor a co-inventor, and thus cannot claim ownership by virtue of inventorship. Furthermore, because the benefits of the inventive act were not bargained for in the employment contract between the parties, there has been no 'meeting of the minds' as to the ownership of the invention. Absent such an agreement, the invention continues to belong to the inventor,

employee uses the employer's resources for the invention before or after the employee reduces an idea to practice.<sup>84</sup>

A shop right attaches immediately upon the invention's creation, rather than at the later date of when the

but the shop right doctrine provides that the employer is allowed to share in the benefits of the invention as a form of compensation for the use of the employer's resources.").

Robert P. Merges, "The Law and Economics of Employee Inventions," 13 *Harv. J.L. & Tech.* 1, 19 (Fall 1999) ("Under the theory of penalty defaults, shop rights could be explained as a default that encourages firms to bargain explicitly over ownership at the outset of a relationship with an inventive employee, consultant, or contractor. To the extent that a firm prefers to own an invention outright, it would have to negotiate up front with a potential inventor who might be assigned title. (This argument holds equally well when an employee, consultant, or contractor would be what was described earlier as an 'independent inventor,' i.e., would hold full title without being subject to a shop right.) By bargaining over prospective ownership, in other words, the firm would signal to the employee, consultant, or contractor that he may be involved in important inventive work. This could be useful information during salary negotiations, for example. At a minimum, the provision informs potential inventors perhaps for the first time that in the absence of a contract, they might have a claim to title for inventions resulting from the relationship.") (footnotes omitted); Paul M. Rivard, "Protection of Business Investments in Human Capital: Shop Right and Related Doctrines," 79 *J. Patent & Trademark Office Soc'y* 753 (1997).

<sup>84</sup> *Wommack v. Durham Pecan Co.*, 715 F.2d 962, 966, 971 (5th Cir. 1983) ("The employer's assistance in the reduction to practice of an idea is not necessary to his obtaining a shop right in the invention. An employee may reduce his idea to practice on his own time before showing his invention to his employer, and nevertheless subsequent employer-employee cooperation on the invention may be sufficient to confer a shop right upon the employer. . . . When *Wommack* [the employee] first consented to and assisted in *Durham's* [the employer's] use of his process [for removing worms from pecans], he had nothing more than an idea he hoped to patent and sell. The patentability of the process, the manner in which it would be applied in a processing plant and the profitability of such application was uncertain. Yet, the exchange of benefits was certain. *Wommack* received the opportunity to test his process commercially and to use *Durham's* equipment in his home for his own experiments. *Wommack* benefitted from this experience in preparing his patent application; he also may have hoped that proven commercial success in the *Durham* plant would facilitate the sale of his process to other plants. *Durham* offered this assistance, at its own risk, with the only possible hope that it would be permitted the continued use of that process.") (footnotes omitted).

*Dewey v. Am. Stair Glide Corp.*, 557 S.W.2d 643 (Mo. App. 1977) (employer did not have a shop right in an unpatented idea that employee conceived at home and developed during lunch hours with *de minimis* use of employer's facilities; fact that the idea was not reduced to practice until employer put the device into production was irrelevant to whether the employer had a shop right).

*Cf. Voith Hydro, Inc. v. Hydro West Grp., Inc.*, 1997 WL 154400, at \*8 (N.D. Cal. March 26, 1997) (employer did not have a shop right when the patented invention was neither conceived nor developed during employee's employment at Allis-Chalmers; although the employee "used some time and resources of Allis-Chalmers to work on the potential flow turbine for the Yacereta project, only one component of the invention, the wicket gates, was modeled. However, the invention was never completed, perfected or reduced to practice at Allis-Chalmers").

employee applies for a patent or the patent is issued, or when the device is put to use.<sup>85</sup> The shop right extends until the patent's expiration.<sup>86</sup>

The scope of an employer's shop right turns on the nature of the employer's business, the character of the invention and the circumstances of its creation, and the relationship, conduct, and intention of the parties.<sup>87</sup> For example, if an employee invents a new tool that the employer uses in its manufacturing operation but does not sell, the employer can use the tool and its replacements in its manufacturing operation but cannot manufacture the tools for sale to customers.<sup>88</sup> As another example, a shop right should not extend to a new line of business, or to a new use of an invention once the employee has terminated employment, or has otherwise made it clear to the employer that the employee does not consent to the employer's use.<sup>89</sup>

The employee owns the invention, and once the employee obtains the patent he or she can exclude all persons other than the employer from using it.<sup>90</sup> The license provides the employer with an equitable defense against infringement claims by the employee and his or her assignees.<sup>91</sup>

Since an employer that has a shop right is only a licensee and does not own the invention or patent, the employer does not have the right to file a patent application, or the right to sue for infringement by third parties.<sup>92</sup> Furthermore, since a shop right is a nonexclu-

sive license, the employee is free to grant third parties a license to use the patent, including the employer's competitors. The employer does not have any right to any royalties that the employee receives from the sale or licensing of the patent.<sup>93</sup>

An employer does not have a shop right when the employer and employee have an agreement that addresses the assignment of rights to an invention,<sup>94</sup> or an arrangement for the employer to compensate the employee for the employer's use of the employee's invention.<sup>95</sup> In these situations, the agreement or arrangement preempts the employer's shop right.

In addition, an employer does not have a shop right when the employee timely advises the employer that the employee does not consent to the employer's royalty-free use of an invention.<sup>96</sup> Finally, an employer does not

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rights in the patent to the licensee); *Vaupel Textilmaschinen v. Meccanica Euro Italia*, 944 F.2d 870, 873-76 (Fed. Cir. 1991) (same).

<sup>85</sup> *McElmurry v. Arkansas Power & Light Co.*, 995 F.2d 1576, 1580 (Fed. Cir. 1993).

<sup>86</sup> *Wiegand v. Dover Mfg. Co.*, 292 F. 255 (N.D. Ohio 1923).

<sup>87</sup> *Flannery Bolt Co. v. Flannery*, 86 F.2d 43, 44 (3d Cir. 1936).

<sup>88</sup> See *Beriont v. GTE Labs., Inc.*, 535 F. App'x 919, 923 (Fed. Cir. 2013) ("It is, at least, likely (if not certain) that the doctrine does not extend to an employer's sale of the patented invention to an unrelated third-party for the latter's unfettered use, since the 'shop right' belongs only to the employer."); *Pac. Coast Marine Windshields Ltd. v. Malibu Boats, LLC*, No. 6:12-cv-000332014 BL 233728, at \*10 (M.D. Fla. Aug. 22, 2014) ("Even if Malibu is factually entitled to some protection under the shop right doctrine, Malibu exceeded the scope of the shop right by enlisting a third-party to manufacture patented windshields and sell them to the public."); 8 Donald S. Chisum, *Chisum on Patents* § 22.03[3][e] (2016).

<sup>89</sup> 8 Donald S. Chisum, *Chisum on Patents* § 22.03[3][e] (2016).

<sup>90</sup> *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 188-89 (1933); *Hapgood v. Hewitt*, 119 U.S. 226, 233-34 (1886); *Kurtzon v. Sterling Indus., Inc.*, 228 F. Supp. 696, 697 (E.D. Pa. 1964); *Preston v. Marathon Oil Co.*, 277 P.3d 81 (Wyo. 2012).

<sup>91</sup> *McElmurry v. Arkansas Power & Light Co.*, 995 F.2d 1576 (Fed. Cir. 1993); *Wommack v. Durham Pecan Co.*, 715 F.2d 962, 967 (5th Cir. 1983); *Ultimax Cement Mfg. Corp. v. CTS Cement Mfg. Corp.*, 856 F. Supp. 2d 1136 (C.D. Cal. 2012); *Marley Co. v. FE Petro, Inc.*, 38 F. Supp. 2d 1070, 1083-84 (S.D. Iowa 1998).

<sup>92</sup> See *Propat Int'l Corp. v. Rpost, Inc.*, 473 F.3d 1187, 1193 (Fed. Cir. 2007) (nonexclusive licensees lack standing to sue for patent infringement); *Kurtzon v. Sterling Indus., Inc.*, 228 F. Supp. 696, 697 (E.D. Pa. 1964) (shop right holder does not have any right to sue for patent infringement nor join with the licensor in bringing an infringement action).

<sup>93</sup> *See Propat Int'l Corp. v. Rpost, Inc.*, 473 F.3d 1187, 1193 (Fed. Cir. 2007) (nonexclusive licensees lack standing to sue for patent infringement); *Kurtzon v. Sterling Indus., Inc.*, 228 F. Supp. 696, 697 (E.D. Pa. 1964) (shop right holder does not have any right to sue for patent infringement nor join with the licensor in bringing an infringement action).

<sup>94</sup> *Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205, 214 (1st Cir. 1971) (when a contract allocates rights to an invention, the common law shop right is unavailable); *Oleksy v. Gen. Elec. Co.*, No. 06-cv-01245, 2011 BL 135715, at \*7 (N.D. Ill. May 23, 2011) (shop rights apply when the terms of employment do not address assignment of intellectual property); *Bd. of Trs. of the Leland Stanford Univ. v. Roche Molecular Sys., Inc.*, No. C 05-04158, 2007 BL 135938, at \*22 (N.D. Cal. Feb. 23, 2007) ("Where an employment relationship specifically anticipates the development and assignment of intellectual property and sets conditions for assignment, the equitable remedy of shop rights is inapplicable."); *Marley Co. v. FE Petro, Inc.*, 38 F. Supp. 2d 1070, 1083 (S.D. Iowa 1998) (when an employment agreement provides for the assignment of inventions to the employer, the employer's rights to inventions are determined by the assignment, and the common law shop right does not apply).

See also *White's Elecs., Inc. v. Teknetics, Inc.*, 677 P.2d 68 (Or. Ct. App. 1984) (electrical engineer who was hired to invent and develop improvements in employer's product line of metal detectors had an obligation to assign inventions to his employer; employer was not entitled to a shop right).

<sup>95</sup> *Pac. Coast Marine Windshields Ltd. v. Malibu Boats, LLC*, No. 6:12-cv-00033, 2014 BL 233728, at \*10 (M.D. Fla. Aug. 22, 2014) (when manufacturer designed a windshield with a customer in mind, and manufacturer would not allow customer to use the invention without compensation, customer did not have a shop right); *Toner v. Sobelman*, 86 F. Supp. 369, 373-75 (E.D. Pa. 1949) (employee went to employer with an invention, a mechanical grain cutter, which the employer agreed to market and pay the employee a proportionate share of any profits; employer not entitled to a shop right); *Gross v. Diehl Specialties Int'l, Inc.*, 870 S.W. 2d 246, 249-50 (Mo. Ct. App. 1994) (when employment agreement provided that the employer shall pay the employee a royalty for the use of his inventions and formulae, whether created or produced before or after the date employment commenced, the common law shop right did not apply); *Kopin v. Orange Products Inc.*, 688 A.2d 130, 139-40 (N.J. App. Div. 1997) (employee's quantum meruit claim based on employer's express promise to pay compensation for improvements to employer's machinery conceived by employee barred employer's shop right).

<sup>96</sup> See *Hobbs v. United States*, 376 F.2d 488, 496 (5th Cir. 1967) (employer did not have a shop right when employee repeatedly informed employer and the government that he would not give up his patent rights without compensation); *Rentrop v. Spectranetics Corp.*, 514 F. Supp. 3d 511 (S.D.N.Y. 2007) (employer did not have a shop right when employee persistently sought compensation and the parties did not come to financial terms), *aff'd*, 550 F.3d 1112 (Fed. Cir. 2008); *White*

have a shop right when the employee conceives of an invention after his or her employment has terminated.<sup>97</sup>

### Nature of Interest Assigned in an Invention

Ownership of an invention is important because only the owner can apply for the patent and become the patentee. A patentee is the person to whom the patent is issued, or any successor in legal title to the original patentee.<sup>98</sup> An assignee is a successor in legal title.<sup>99</sup>

An employee's assignment of a patent to the employer means that the employee does not become the patentee. Loss of patentee status means that only the employee-assignee, and not the employee-assignor, has

*Heat Petroleum Products Co. v. Thomas*, 109 A. 685, 687 (Pa. 1920) (employer did not have a shop right when employee conceived and performed preliminary work outside of his working hours and in a plant not connected with the employer; while the tool was subsequently perfected and manufactured in the employer's plant, "the labor necessary to accomplish that result was done under and subject to the completion of negotiations for a proper compensation to defendant [the employee] in the shape of a proportionate share of the profits to be derived from the manufacture and sale of the patented article;" negotiations never resulted in an agreement).

<sup>97</sup> See *Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205 (1st Cir. 1971) (employment contract provided that employee assigned "all inventions or improvements which he may make while in the employ of Rockwood;" since employee did not conceive of invention until after he resigned, employer was not entitled to assignment of the invention and did not have a shop right).

<sup>98</sup> 35 U.S.C. § 100(d).

<sup>99</sup> 35 U.S.C. § 261 ("Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing."); *Abbott Point of Care, Inc. v. Epocal, Inc.*, 666 F.3d 1299, 1302 (Fed. Cir. 2012) (transfers of title, otherwise known as assignments, are controlled by 35 U.S.C. § 261); *Sky Techs. LLC v. SAP AG*, 576 F.3d 1374, 1379 (Fed. Cir. 2009) ("The Federal Patent Act requires that all assignments of patent interest be in writing."), *cert. denied*, 559 U.S. 1048 (2010).

standing to bring an action for money damages for patent infringement.<sup>100</sup> In addition, in an action for patent infringement the employee-assignor is estopped from asserting the defense of the patent's invalidity.<sup>101</sup>

<sup>100</sup> 35 U.S.C. § 281 ("A patentee shall have remedy by civil action for infringement of his patent."); *Larson v. Correct Craft, Inc.*, 569 F.3d 1319, 1324-27 (Fed. Cir. 2009); *Propat Int'l Corp. v. Rpost, Inc.*, 473 F.3d 1187, 1189 (Fed. Cir. 2007) (a suit for patent infringement must be brought by the party holding legal title to the patent); *Sicom Sys., Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 976 (Fed. Cir. 2005) (assignee may be deemed the effective patentee for purposes of constitutional standing to sue for patent infringement in its own name); *Mentor H/S, Inc. v. Med. Device Alliance, Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001); *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1249-50 (Fed. Cir. 2000) (only the owner of a patent, whether by issuance or assignment, can bring an action for infringement); *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1579 (Fed. Cir. 1991); *Vaupel Textilmaschinen v. Meccanica Euro Italia*, 944 F.2d 870, 875 (Fed. Cir. 1991) (party that assigned all of its ownership in a patent lacks any right to sue for infringement); *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1572 (Fed. Cir. 1991) (party that lacked legal title to patent did not have standing to bring an action for infringement).

*Berry v. Ford Motor Co.*, No. 5:11-cv-10569, 2015 BL 104799, at \*4 and 6 (E.D. Mich. Apr. 14, 2015) (since assignee of inventions owned the inventions and patents, assignor had no financial interest in the patents and therefore lacked standing to challenge their inventorship; even if the assignments of the patents were fraudulently induced, assignor was not entitled to relief because the assignee was still the proper owner of all intellectual property developed during the contract period), *aff'd without opinion*, No. 15-01699, 2016 BL 34002 (Fed. Cir. Feb. 8, 2016).

<sup>101</sup> *Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 150 F.3d 1374, 1378 (Fed. Cir. 1998) ("Without exceptional circumstances (such as an express reservation by the assignor of the right to challenge the validity of the patent or an express waiver by the assignee of the right to assert assignor estoppel), one who assigns a patent surrenders with that assignment the right to later challenge the validity of the assigned patent."); *Shamrock Techs., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789,

793 (Fed. Cir. 1990); *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1224 (Fed. Cir. 1988) (“Assignor estoppel is an equitable doctrine that prevents one who has assigned the rights to a patent (or patent application) from later contending that what was assigned is a nullity. The estoppel also operates to bar other parties in privity with the assignor, such as a corporation founded by the assignor. . . . The estoppel historically has applied to invalidity challenges based on ‘novelty, utility, patentable invention, anticipatory matter, and the state of the art.’ . . . [I]t is the implicit representation by the assignor that the patent rights that he is assigning (presumably for value) are not worthless that sets the assignor apart from the rest of the world and can deprive him of the ability to challenge later the validity of the patent. To allow the assignor to make that representation at the time of the assignment (to his advantage) and later to repudiate it (again to his advantage) could work an injustice against the assignee.”) (citations omitted), *cert. dismissed*, 487 U.S. 1265 (1988).

In addition, the employee’s subsequent employer is estopped from asserting the invalidity defense when the employee and subsequent employer are in privity. See *MAG Aerospace Indus., Inc. v. B/E Aerospace, Inc.*, 816 F.3d 1374, 1379-81 (Fed. Cir. 2016) (the factors in the privity analysis are: “(1) the assignor’s leadership role at the new employer; (2) the assignor’s ownership stake in the defendant company; (3) whether the defendant company changed course from manufacturing noninfringing goods to infringing activity after the inventor was hired; (4) the assignor’s role in the infringing activities; (5) whether the inventor was hired to start the infringing operations; (6) whether the decision to manufacture the infringing product was made partly by the inventor; (7) whether the defendant company began manufacturing the accused product shortly after hiring the assignor; and (8) whether the inventor was in charge of the infringing operation”); *Shamrock Techs., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 793 (Fed. Cir. 1990) (“Privity, like the doctrine of assignor estoppel itself, is determined upon a balance of the equities. If an inventor assigns his invention to his employer company A and leaves to join company B, whether company B is in privity and thus bound by the doctrine will depend on the equities dictated by the relationship between the inventor and company B in light of the act of infringement. The closer that relationship, the more the equities will favor applying the doctrine to company B.”).

*HWB, Inc. v. Braner, Inc.*, 869 F. Supp. 579, 582 (N.D. Ill. 1994) (“For the doctrine of assignor estoppel to bar a company who later employs the assignor, the assignor must play a clear and direct role in the company’s infringing operations. See *Shamrock Technologies*, 903 F.2d at 794. Every employee provides some knowledge or assistance to his employer. Those who do not are terminated. Thus, for purposes of privity, the relevant question is whether the assignor/inventor plays such a significant part in his new employer’s operations that his new employer could not have initiated the infringing operations without the assistance of the assignor/inventor. In the absence of such a relationship, the equities do not balance in favor of applying the doctrine of assignor estoppel and preventing the new employer from asserting the defense of invalidity in response to a patent infringement suit.”).

For critical analyses of the adverse effect of assignor estoppel on employee mobility, see Mark A. Lemley, “Rethinking Assignor Estoppel,” 54 *Hous. L. Rev.* 513, 537-38 (2016) (“An inventor cannot start a company or go to work for a competitor in the same area without operating at a significant disadvantage: the inability to effectively defend a patent lawsuit filed against her new company. And that limitation applies not to ideas specifically sold by the inventor to the prior employer, but to any work the employee does that later leads to a patent, with or without her participation. Worse, the burden of this unbargained-for noncompete falls disproportionately on start-ups. Even with the Federal Circuit’s broad privity rules, an in-

ventor who goes to work at a large existing company may not trigger assignor estoppel if she is not a manager and is cordoned off from working on projects related to her invention. That itself is socially costly: it requires hiring companies to compartmentalize employees away from their most productive work, and therefore discourages the hiring of inventive employees. But the situation is worse for start-ups. The same inventor will almost certainly be estopped if she tries to start a new company. And even if she goes to work for an existing start-up that sort of compartmentalization may be impossible as a practical matter at a new company. Further, the more productive an inventor is – the more different ideas she has – the harder it will be for her to get a job or start a company, as she will have invented in many different fields, making differentiation or compartmentalization more difficult. The effect is not that of a full noncompete – the inventor is not barred at all from employment in the field. But it raises the costs of hiring an inventor and therefore discourages employee mobility.”) (footnotes omitted).

Orly Lobel, “The New Cognitive Property: Human Capital Law and the Reach of Intellectual Property,” 93 *Tex. L. Rev.* 789, 821-22 (March 2015) (“In practice, the assignor estoppel doctrine operates to place a former employee and his new employer at a great disadvantage compared to all other competitors because their legal defenses are dramatically diminished. Because invalidity is a major defense in patent litigation, in essence, assignor estoppel penalizes a former employee and thus creates a powerful disincentive for competitors to hire an employee who has experience in the field. Essentially, anyone who already has human capital in the hiring company’s field becomes a liability for the new company. The following has become a prevalent scenario: an employee, as part of his employment agreement, assigns an invention to the firm (Firm A). The employee moves to a competing firm, Firm B. After the employee leaves Firm A, Firm A files for a patent on the former employee’s inventions. This can happen without the employee’s knowledge or consent regarding the claims issued and the scope of the filed patents. Frequently, claims are filed postemployment and without the former employee’s control over the filed claims. During this period after the employee began working at Firm B, she works on innovation for Firm B. If Firm A sues Firm B for patent infringement, Firm B is estopped from attacking the validity of the patent because it has hired a former Firm A employee and involved the employee in the innovation in question. The perverse result is that the most productive and experienced employees, who are already engaged in inventive activities in their industry, become untouchables. The hiring of these employees who are already in the field creates an immense risk. Aberrantly, the more experienced an employee, the less employable they become. The assignment agreement coupled with the assignor estoppel doctrine becomes a de facto trailer clause, both tantamount to a postemployment noncompete.”) (footnotes omitted).

One commentator cogently argues that the use of present assignments of future inventions by employees to employers that result in the automatic assignments of the patents to the employers means that the policy rationale for assignor estoppel no longer applies. Mark A. Lemley, “Rethinking Assignor Estoppel,” 54 *Hous. L. Rev.* 513, 526-27 (2016) (the automatic assignment by employees undermines “the idea that an employee was defrauding the unsuspecting company by selling it something she knew was worthless. That cannot be true if an employee is assigning her rights to patents that aren’t yet written, and indeed to inventions that haven’t even been made yet. Similarly, an employer that requires all its employees to disclose all their ideas and pre-assign them to the company cannot plausibly claim to have relied on some sort of implied promise by the employees that the inventions they disclose are valuable ones”) (footnote omitted).

This commentator also points out that assignor estoppel may play a role in acquisitions known as “acqui-hires.” An

In *DDB Technologies, LLC v. MLB Advanced Media, LP*,<sup>102</sup> the court held that since the “question of whether a patent assignment clause creates an automatic assignment or merely an obligation to assign is so intimately bound up with the question of standing in patent cases,” this question is governed by federal law.<sup>103</sup>

acqui-hire is an acquisition by a large public technology company of a start-up in which the buyer primarily wants the start-up’s key engineers. The buyer also often acquires the start-up’s patents so that they are “off the table [and] cannot be used against the buyer while it is disabled from challenging their validity.” *Id.* at 537 n. 125.

Another commentator points out that in an acqui-hire, the buyer avoids challenges by the start-up to patents on inventions that the buyer develops after the acquisition. In the absence of an acqui-hire, the invention assignment agreements signed by the engineers while at the start-up enable the start-up to challenge the buyer’s patents. Andres Sawicki, “Buying Teams,” 38 *Seattle U. L. Rev.* 651, 666-67 (Winter 2015) (“[I]magine that a start-up is working on a new algorithm for recommending products to members of a user’s social group. While at the start-up, the engineers conceive of the invention. It is not, however, ready for commercialization. In order to delay starting the clock on the patent term (which is measured from the day the application is filed), the start-up does not file for a patent while the team continues to refine the commercial product that will incorporate the invention. Facebook, which is working on similar projects, decides to add the start-up’s team of engineers via a group hire; whatever rights the start-up’s investors held in the engineers’ work therefore remained with the investors. One year after Facebook hires the engineers, it is prepared to launch a commercial product incorporating the invention, and files for a patent to protect it. Facebook’s decision to pursue a group hire instead of an acqui-hire will now make this patent vulnerable. The start-up’s investors, who were left in the lurch when the engineers left via a group hire, can sue to obtain ownership of the patent on the grounds that the invention falls within the terms of the invention assignment agreement the engineers had signed with the start-up. Even if the investors do not sue, Facebook’s ownership of the patent is still uncertain. If it seeks to sue a third-party for infringement, the accused infringer can defend on the basis that Facebook does not own the patent. Therefore, in order to ensure that it can use the start-up’s future patents, Facebook must obtain from the start-up the rights stemming from the invention assignment agreements. It can do so with an acqui-hire; it cannot do so with a group hire. In sum, because the investors have viable claims to existing and potential patents covering inventions produced by the team of engineers, a buyer interested in obtaining both the start-up’s engineers and its patents will have to do so by pursuing an acqui-hire instead of a group hire.”) (footnotes omitted).

<sup>102</sup> 517 F.3d 1284 (Fed. Cir. 2008).

<sup>103</sup> *Id.* at 1290; accord, *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1364 (Fed. Cir. 2010), petition for panel reh’g and reh’g en banc denied, 672 F.3d 1239 (Fed. Cir. 2011); *SiRF Technology, Inc. v. Int’l Trade Comm’n*, 601 F.3d 1319, 1326-27 (Fed. Cir. 2010); *Imation Corp. v. Koninklijke Philips Elecs. N.V.*, 586 F.3d 980, 985-86 (Fed. Cir. 2009); *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832, 841 (Fed. Cir. 2009), *aff’d*, 563 U.S. 776, 784 n. 2 (2011) (“Because the Federal Circuit’s interpretation of the relevant assignment agreements is not an issue on which we granted certiorari, we have no occasion to pass on the validity of the lower court’s construction of those agreements.”).

See generally Mike Baniak & Todd Dawson, “Discussion of Employer Assignment Agreements After *DDB Technologies v. MLB Advanced Media*,” 7 *Nw. J. Tech. & Intell. Prop.* 298 (2009); Shannon H. Hedvat, “A New Age of Pro-Employer Rights: Are Automatic Assignments the Standard?,” 13 *U. Pa. J. Bus. L.* 817 (Spring 2011); Ian N. Feinberg, Eric B. Evans &

The court found that the following language in an employment agreement was a present assignment of rights to future inventions:

3. Employee shall promptly furnish to Company a complete record of any and all technological ideas, inventions and improvements, whether patentable or not, which he, solely or jointly, may conceive, make or first disclose during the period of his employment with [Schlumberger].

4. 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 coming within the scope of Paragraph 3:

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 or activities or 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.<sup>104</sup>

When an assignment provides that the employee “hereby assigns” the rights to inventions, the assignment is an automatic assignment and effects a present assignment of the employee’s future inventions to the employer. The employer-assignee immediately obtains equitable title to the future inventions. Once the invention is made, legal title to the inventions belongs to the employer-assignee, and the employee-inventor no longer has anything left to assign. Transfer of legal title to the employer-assignee occurs automatically by operation of law, and no further act of assignment by the employee-inventor is necessary.<sup>105</sup>

Andrew M. Holmes, “Consequences of the Federal Circuit’s New Reliance on Federal Common Law to Interpret Patent Assignment Agreements,” 3 *Landslide* 24 (Jan./Feb. 2011).

<sup>104</sup> 517 F.3d at 1287.

<sup>105</sup> *Imation Corp. v. Koninklijke Philips Elecs. N.V.*, 586 F.3d 980, 986 (Fed. Cir. 2009); *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832, 841-42 (Fed. Cir. 2009), *aff’d*, 563 U.S. 776, 784 n. 2 (2011) (“Because the Federal Circuit’s interpretation of the relevant assignment agreements is not an issue on which we granted certiorari, we have no occasion to pass on the validity of the lower court’s construction of those agreements.”); *DDB Techs., LLC v. MLB Advanced Media, LP*, 517 F.3d 1284, 1290 & n. 3 (Fed. Cir. 2008); *IpVenture, Inc. v. Prostar Comput., Inc.*, 503 F.3d 1324, 1327 (Fed. Cir. 2007) (under federal law the language of “hereby assign” or “hereby grant” was necessary to contractually assign patent rights; court declined to apply California law in construing an employee assignment agreement); *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1253 (Fed. Cir. 2000) (language that inventions “shall belong” to employer, and that employee “hereby conveys, transfers, and assigns” inventions to employer was a present assignment of an expectant interest; employer obtained legal title to an invention by operation of law once the invention was made); *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1570, 1572-73 (Fed. Cir. 1991) (language of “agrees to grant and does hereby grant” was a present assignment of an expectant interest).

*Picture Patents, LLC v. Aeropostale, Inc.*, 788 F. Supp. 2d 127, 136 (S.D.N.Y. 2011) (employee assigned to employer inventions that “relate to the actual or anticipated business or re-

Furthermore, in light of the clear language of a present assignment of expectant interests, the provision,

search or development of IBM or its subsidiaries;” assignment was a present assignment of a future invention and IBM held title to invention from the moment it came into being; assignment applied to inventions remotely related to computers that the employee conceived of during a holiday spent away from work and regardless of whether they related to the employee’s assigned work); *Imatec, Ltd. v. Apple Comput., Inc.*, 81 F. Supp. 2d 471, 478 (S.D.N.Y. 2000) (language of inventor agrees to assign and hereby does assign all my rights to invention was a present assignment of an expectant interest).

*Cf. Polyzen, Inc. v. RadiaDyne, LLC*, No. 5:11-cv-00622, 2016 BL 315565 (E.D.N.C. Sept. 23, 2016) (Development & Commercialization Agreement for a rectal balloon catheter provided that the product “will remain the propert[y] of RadiaDyne;” court held that this language “arguably falls into a grey zone between the strong operative language of ‘does hereby grant,’ which unambiguously creates a present interest, and the future-focused language of ‘will be assigned,’ which creates only an equitable interest and not legal title. The most natural reading, however, creates a present legal interest in RadiaDyne in an exclusive license. ‘Will remain’ suggests that the RadiaDyne Product always has been and continues to be the property of RadiaDyne; there was no additional right that needed to be assigned when the ‘497 patent issued. Thus, the 2008 DCA created by operation of law an exclusive license for RadiaDyne to the claims of the ‘497 patent covered by the definition of RadiaDyne Product”) (citations omitted).

*C.R. Daniels, Inc. v. Naztec Int’l Grp., LLC*, 2012 BL 104722 (D. Md. Apr. 13, 2012) (employment agreement provided, “I hereby agree that without further consideration to me any inventions or improvements that I may conceive, make, invent or suggest during my employment by [C.R. Daniels] . . . shall become the absolute property of [C.R. Daniels], and I will, at any time at the request of [C.R. Daniels] . . . execute any patent papers covering such inventions or improvements as well as any papers that [C.R. Daniels] may consider necessary or helpful in the prosecution of applications for patent thereon and which may relate to any litigation or controversy in connection therewith;” court held that this language more closely resembled the “does hereby grant” and “hereby conveys, transfers and assigns” language of *FilmTec* and *Speedplay*, respectively, rather than the “will be assigned” language of *Arachnid*;<sup>106</sup> the phrase “without further consideration” was of key importance since it showed that the agreement did not contemplate that any further act of assignment would be necessary once an invention came into being; the language to execute patent papers and other papers that the employer may consider necessary or helpful “merely required the inventors to provide assurances that they would assist their employers with efforts to patent future inventions. It does not indicate that the immediate assignment contemplated by the employment agreements was invalid or incomplete;” in addition, the language did not refer to the future execution of assignments, but the future execution of patent papers and other papers; “Clearly, the employment agreements merely contemplated the performance of ministerial tasks necessary to obtain patents”).

See generally Shubha Ghosh, “Short-Circuiting Contract Law: The Federal Circuit’s Contract Law Jurisprudence and IP Federalism,” 96 *J. Patent & Trademark Office Soc’y* 536, 540-41 (2014) (“The Federal Circuit ruled in *FilmTec* that priority of assignment depends upon whether an assignment is a present transfer of a future interest or an intention to transfer a future interest in the future. The future interest at issue is the patent which did not exist when the employee entered into the respective contracts. The assignment provisions were a promise to assign the patent rights when they arose. If, however, the assignment provision were a present transfer, as would be demonstrated by the use of the word ‘hereby,’ then the transfer to the employer would be automatic as soon as the future patent rights came into being. . . . The rule [under *Stanford*] can be stated as present assignments trump future assign-

“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,” was of no import.<sup>106</sup>

When an assignment provides that the employee “agrees to assign” or “will assign” rights to inventions, the assignment is a promise to assign rights in the future.<sup>107</sup> It is not an automatic assignment and present

ments even if the present assignment is entered into after the future assignment.”).

Kenneth A. Adams, “Granting Language in Patent Licensing Agreements,” 8 *Landslide* 42, 42-43 (Jan./Feb. 2016) (“In language of performance, *hereby* signals that the act described is being accomplished by virtue of the speech act itself. You could omit *hereby*, but this use of *hereby* is consistent with standard English. If you omit *hereby* from *Acme hereby grants the Licensee a license to*, it would be clear from the context that the intended meaning isn’t that, say, Acme is in the habit of granting licenses to the Licensee. But in purely grammatical terms, one couldn’t exclude that meaning without using *hereby*. If you use *hereby* to eliminate alternative meanings, the reader doesn’t have to work as hard.”) (“The phrase *agrees to* is confusing. It could be understood as either an alternative to *shall* for imposing obligations or an alternative to *hereby* to express language of performance. So in granting language, don’t use *agrees to grant* instead of *hereby grants* a court might hold that it constitutes a promise to grant in the future. And combining the two *agrees to grant* and *hereby grants* or some variant results in either redundancy or conflict. That might not result in a dispute, and some courts have ignored the *agrees to grant* part, but it’s nevertheless confusing and adds unnecessary extra words. One authority says it’s commonplace to use both elements if the license includes patents to be issued later on applications or inventions identified in the agreement. But in a case involving granting language that featured both elements (‘agrees to and does hereby grant and assign’), the court held that ‘does hereby grant’ effected an assignment of rights in future inventions. That left ‘agrees to . . . grant’ no role to play.”) (footnotes omitted).

<sup>106</sup> 517 F.3d at 1290 n. 3. Section 1.2(p)-(q) of the Model Provisions sets forth the Employee’s obligations to sign all applications, assignments, and powers-of-attorney, and perform all other acts to procure and maintain registrations and other protections for Work Product. Section 1.2(r) of the Model Provisions prophylactically provides, “The provisions of section 1.2(p)-(q) do not limit the effectiveness of the present assignments of expectant interests under this agreement.”

<sup>107</sup> *Gellman v. Telular Corp.*, 449 F. App’x 941, 943-44 (Fed. Cir. 2011) (consulting agreement provided that all inventions “shall be and remain the exclusive property of Cellular Alarm. [Mr. Seivert] agrees to execute any and all assignments or other transfer documents which are necessary, in the sole opinion of Cellular Alarm, to vest in Cellular Alarm all right, title, and interest in such Work Products;” court held that this language was an agreement to assign in the future, and granted only equitable title and not the legal title necessary for standing; “[T]he word ‘remain’ indicates that Mr. Seivert’s contributions to inventions ‘remained’ in equitable status until such a time as Mr. Seivert ‘execute[d] any and all assignments or other transfer documents which are necessary . . . to vest in Cellular Alarm all right, title and interest’ in such inventions. Otherwise, the ‘execute any and all assignments’ language in the contract is surplusage without relevant meaning”); *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1365 (Fed. Cir. 2010) (asset purchase agreement provided that seller shall or shall cause one or more of its affiliates to transfer designated patents; actual transfer of the patents was to occur by a separate intellectual property assignment prior to the July 31, 2006 closing date; although the June 28, 2006 assignment purported to assign the patents, at that time seller could not assign the patents because it did not possess their titles; seller had no le-

transfer of expectant interests, and does not result in the transfer of legal title by operation of law once the invention is made. Rather, the assignment grants the assignee only equitable title once the invention is made.<sup>108</sup> A subsequent written assignment is necessary to effect a transfer of legal title.

Thus, when there is an ineffective assignment of patent rights under federal law, the assignee does not have legal title to the patents and lacks standing to sue for money damages for patent infringement. For example, an employment agreement provides that the employee agrees to assign all inventions and discoveries conceived or made by the employee alone or with others while employed, and that the inventions and discoveries are the employer's sole property. Under the governing state law, the agreement's language creates an effective assignment that automatically transfers ownership of the invention to the employer.

Nevertheless, federal law controls, and under federal law the agreement is not an effective assignment of patent rights. Assume that the employee leaves, files a pat-

ent application in the employee's name, and receives a patent. If the employer brings a patent infringement action, the employee can move to dismiss the action for the employer's lack of standing. Since the agreement did not contain an effective assignment, the employer does not have legal title to the patent and lacks standing.

If the employer seeks to obtain legal title of a patent from an employee, the employer can find itself in a dilemma. The assignment gives the employer equitable title, which gives the employer the right to obtain legal title from the employee.<sup>109</sup> If the employer sues the employee for specific performance to transfer legal title to the patent, it would have to sue in state court, and state law would apply.<sup>110</sup> Even if the parties were diverse and the employer sued in federal court, the court would apply state law.<sup>111</sup> If the assignment transfers ownership to the employer under state law, the employer has legal title. As a result, no case or controversy exists, and the employee would move to dismiss the suit.

Since federal law determines the legal effect of an assignment of patent rights, an employer with employees in multiple states has the benefit of a uniform standard that applies across all state lines.<sup>112</sup> In addition, employers that own patent rights through an effective assignment can sue for damages for patent infringement in federal rather than state court.

There are three exceptions to the rule that federal law determines whether an assignment of patent rights is an effective transfer of ownership. First, for any transfer of patent ownership by operation of law that is not treated as an assignment under federal law, state law controls.<sup>113</sup>

Second, for an assignment made outside the United States, foreign law controls.<sup>114</sup>

Third, when an invention is not patented, state law applies to determine its ownership. In *DDB Technologies*, the court held that since the question of patent

gal title to assign and therefore lacked standing to commence infringement litigation), *petition for panel reh'g and reh'g en banc denied*, 672 F.3d 1239 (Fed. Cir. 2011); *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832, 841-42 (Fed. Cir. 2009), *aff'd*, 563 U.S. 776, 784 n. 2 (2011) ("Because the Federal Circuit's interpretation of the relevant assignment agreements is not an issue on which we granted certiorari, we have no occasion to pass on the validity of the lower court's construction of those agreements."); *IpVenture, Inc. v. Prostar Comput., Inc.*, 503 F.3d 1324, 1327 (Fed. Cir. 2007) (language of "agree to assign" means an "agreement to assign" that required a subsequent written instrument of assignment); *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1576, 1580-81 (Fed. Cir. 1991) (language of any inventions shall be the property of the client and all rights thereto will be assigned by the contractor was an agreement to assign inventions in the future); *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1572-73 (Fed. Cir. 1991).

*Nat'l Oilwell Varco, LP v. Omron Oilfield & Marine, Inc.*, No. 1:12-cv-00773, 2015 WL 11251772 (W.D. Tex. Feb. 17, 2015) (asset contribution agreement for contribution of Property to limited partnership provided in section 1.1 that "Contributor agrees to transfer and convey or assign all of Contributor's right, title, and interest in and to the Property to Partnership," and section 1.2 provided, "Concurrently with the execution of this Agreement, Contributor shall convey, assign, and transfer the Property to the Partnership" and "shall execute and deliver any and all documents or instruments as may be required, or which may be reasonably requested, by Partnership in order to effect and memorialize such conveyance, assignment, and transfer;" separate assignment document was not executed; language of asset contribution agreement was not a present assignment); *Rothschild v. Cree, Inc.*, 711 F. Supp. 2d 173, 182 (D. Mass. 2010) ("There is a distinction between an agreement that automatically assigns the patent as soon as the invention comes into being, and an agreement that merely creates an obligation to assign the patent in the future."); *Freedom Wireless, Inc. v. Boston Comm'n Grp., Inc.*, 220 F. Supp. 2d 16 (D. Mass. 2002) (employment contract provided that inventions conceived or made by the employee during employment belong to the company, and required the employee to promptly disclose the inventions and perform all actions reasonably requested by the company to establish its ownership; this provision was merely an agreement to assign the employee's inventions at some point in the future, and not a present assignment of expectant interests).

<sup>108</sup> *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1576, 1580-81 (Fed. Cir. 1991); *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1572-73 (Fed. Cir. 1991).

ent application in the employee's name, and receives a patent. If the employer brings a patent infringement action, the employee can move to dismiss the action for the employer's lack of standing. Since the agreement did not contain an effective assignment, the employer does not have legal title to the patent and lacks standing.

If the employer seeks to obtain legal title of a patent from an employee, the employer can find itself in a dilemma. The assignment gives the employer equitable title, which gives the employer the right to obtain legal title from the employee.<sup>109</sup> If the employer sues the employee for specific performance to transfer legal title to the patent, it would have to sue in state court, and state law would apply.<sup>110</sup> Even if the parties were diverse and the employer sued in federal court, the court would apply state law.<sup>111</sup> If the assignment transfers ownership to the employer under state law, the employer has legal title. As a result, no case or controversy exists, and the employee would move to dismiss the suit.

Since federal law determines the legal effect of an assignment of patent rights, an employer with employees in multiple states has the benefit of a uniform standard that applies across all state lines.<sup>112</sup> In addition, employers that own patent rights through an effective assignment can sue for damages for patent infringement in federal rather than state court.

There are three exceptions to the rule that federal law determines whether an assignment of patent rights is an effective transfer of ownership. First, for any transfer of patent ownership by operation of law that is not treated as an assignment under federal law, state law controls.<sup>113</sup>

Second, for an assignment made outside the United States, foreign law controls.<sup>114</sup>

Third, when an invention is not patented, state law applies to determine its ownership. In *DDB Technologies*, the court held that since the question of patent

<sup>109</sup> *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1580 (Fed. Cir. 1991); *Std. Oil Co. v. Markham*, 64 F. Supp. 656, 666-67 (S.D.N.Y. 1945).

<sup>110</sup> *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (federal patent laws do not preempt state contract law "merely because the contract relates to intellectual property which may or may not be patentable."); *Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1572 (Fed. Cir. 1997) ("The question of who owns the patent right and on what terms typically is a question exclusively for state courts.").

<sup>111</sup> *Erie R.R. Co. v. Tompkins*, 304 U.S. 64, 72-73 (1938).

<sup>112</sup> See Shubha Ghosh, "Short-Circuiting Contract Law: The Federal Circuit's Contract Law Jurisprudence and IP Federalism," 96 *J. Patent & Trademark Office Soc'y* 536, 552 (2014) ("The goal of uniformity may be seen as promoting the goals of the patent owner to monetize and commercialize inventions through the system of contract law, whether in the form of licenses, assignments, or conditioned sales. Within the scheme of commercialization, the need for uniform rules to guide transactions may serve as a means of maximizing value through minimizing the cost of complex and disparate rules.").

<sup>113</sup> *Sky Techs. LLC v. SAP AG*, 576 F.3d 1374, 1379 (Fed. Cir. 2009) ("Usually, federal law is used to determine the validity and terms of an assignment, but state law controls any transfer of patent ownership by operation of law not deemed an assignment;" state law of foreclosure controlled), *cert. denied*, 559 U.S. 1048 (2010).

<sup>114</sup> *Israel Bio-Engineering Project v. Amgen, Inc.*, 475 F.3d 1256 (Fed. Cir. 2007) (Israeli law determined effect of an assignment for purposes of ownership and standing).

ownership is “intimately bound up with the question of standing in patent cases,” federal law determines the ownership of patent rights under an assignment. When standing in patent cases is not at issue, federal law does not apply in determining ownership under an assignment.

Since virtually all well-drafted assignments apply to inventions that are subject to patents and those that are not,<sup>115</sup> both federal and state law will apply to the assignment. Applying two bodies of law creates the risk that the assignment will be effective under federal law but not state law, and vice versa. Therefore, an employer should use an assignment that is an effective present assignment of ownership rights for all inventions under both federal and governing state law. The employer should also provide that if the assignment is not an effective present assignment of expectant interests in any jurisdiction, the employee shall assign the ownership rights to the employer with respect to that jurisdiction. Section 1.2(g)-(k) of the Model Provisions uses this approach.

Furthermore, other than the question of whether an assignment is an automatic assignment that transfers a present interest in future inventions, state contract law applies to the construction of an assignment.<sup>116</sup> Accordingly, whether federal or state law applies, an employer should draft assignments to accurately describe the in-

<sup>115</sup> Section 1.2(a)(iv) of the Model Provisions defines items of Work Product “without regard to whether they are registrable under copyright, patent, service mark, or trademark statutes, and without regard to whether they are entitled to trade secret or other form of protection.”

<sup>116</sup> *Preston v. Marathon Oil Co.*, 684 F.3d 1276, 1285 (Fed. Cir. 2012) (state contract law governs the construction of patent assignments); *SIRF Tech., Inc. v. Int’l Trade Comm’n*, 601 F.3d 1319, 1326-27 (Fed. Cir. 2010) (the question of whether an invention is “related or useful in the business of the Employer” as provided in an employment agreement is a matter of state law); *Euclid Chem. Co. v. Vector Corrosion Techs., Inc.*, 561 F.3d 1340, 1344 (Fed. Cir. 2009) (resolution of ambiguity in patent assignment is governed by state law); *DDB Techs., LLC v. MLB Advanced Media, LP*, 517 F.3d 1284, 1290 (Fed. Cir. 2008) (the question of whether patents “relate in any way to the activities” of the employer, or “are suggested by or result from” the employee’s work for the employer as provided in an employment agreement is governed by state law); *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1370 (Fed. Cir. 2008) (“Construction of patent assignment agreements is a matter of state contract law.”).

*Motorola, Inc. v. Lemko Corp.*, No. 1:08-cv-05427, 2012 BL 5305, at \*5 (N.D. Ill. Jan. 10, 2012) (whether an invention is “related to the actual or anticipated business activities of Motorola, or result from, or are suggested by, work which I do for Motorola” under an employment agreement is a question of state law).

See also *DDB Techs., LLC v. MLB Advanced Media, LP*, 517 F.3d 1284, 1294 (Fed. Cir. 2008) (Newman, J., dissenting) (“Interpretation of employment contracts, including clauses establishing employer-employee obligations with respect to inventions and patents, is a traditional state matter;” contracts are creatures of state law and should be governed by the contractual law that was binding on the parties; contract interpretation is a different issue from standing in patent cases); Shannon H. Hedvat, “A New Age of Pro-Employer Rights: Are Automatic Assignments the Standard?,” 13 *U. Pa. J. Bus. L.* 817, 826 (Spring 2011) (“Although federal law governs the interpretation of patent assignment provisions (according to the Federal Circuit in *DDB Technologies*), and therefore creates uniformity, general contract interpretation is still under state law jurisdiction.”).

ventions and other items of work product that the employer wishes to acquire ownership of.

For example, in *Preston v. Marathon Oil Co.*,<sup>117</sup> the assignment in an employment agreement defined “Intellectual Property” in pertinent part as “all inventions, discoveries, developments, writings, computer programs and related documentation, designs, ideas, and any other work product made or conceived by EMPLOYEE during the term of employment.”<sup>118</sup> The court held that under this language if the employee’s invention of a baffle system used in the extraction of methane gas in coal bed methane gas wells was not both made and conceived before his employment began, the invention was automatically assigned to the employer.<sup>119</sup>

<sup>117</sup> 684 F.3d 1276 (Fed. Cir. 2012).

<sup>118</sup> *Id.* at 1285.

<sup>119</sup> *Id.* at 1286; see also *Applera Corp. Applied Biosystems Group v. Illumina, Inc.*, 375 F. App’x 12, 17 (Fed. Cir. 2010) (Employee Invention Agreement required employee to assign patent rights for inventions developed during his employment unless: (1) the invention was developed entirely on his own time; (2) no equipment, supplies, facility, or trade secret of the Company was used in its development; and (3) “it does not relate to the business or actual or demonstrably anticipated research or development of the Company, or (ii) it does not result from any work performed by [him] for the Company;” “Under the plain language of the EIA, to retain his invention Dr. Macevicz need only show that his invention (1) does not relate to the business or actual or demonstrably anticipated research or development of Applera or (2) does not result from any work performed by Dr. Macevicz for Applera. California law requires us to construe contractual obligations ‘most strongly against the party who caused the uncertainty to exist.’ Cal. Civ. Code § 1654. Here, Applera drafted the EIA. We cannot agree with Applera that the California Supreme Court would rewrite the EIA changing ‘or’ to an ‘and’ in this case”).

*Motorola, Inc. v. Lemko Corp.*, No. 1:08-cv-05427, 2012 BL 5305, at \*8-10 (N.D. Ill. Jan. 10, 2012) (employment agreement with Motorola provided that the employee hereby assigns “all my inventions, innovations, or ideas developed or conceived by me solely, or jointly with others, at any time during the term of my employment and which inventions, innovations, or ideas related to the actual or anticipated business activities of Motorola, or result from, or are suggested by, work which I do for Motorola;” language of assignment was a present transfer of an expectant interest; a reasonable jury could find that technology developed at Lemko, the subsequent employer, came within the Motorola assignment since the Lemko technology embodied inventions, innovations, or ideas related to or suggested by the employee’s work at Motorola; employee’s work at Motorola and the Lemko technology involved wireless devices capable of moving between different types of networks, and both contained several identically named and arranged components); *Picture Patents, LLC v. Aeropostale, Inc.*, 788 F. Supp. 2d 127, 136 (S.D.N.Y. 2011) (employee assigned inventions that “relate to the actual or anticipated business or research or development of IBM or its subsidiaries;” assignment applied to inventions remotely related to computers that the employee conceived of during a holiday spent away from work and regardless of whether the inventions related to the employee’s assigned work); *Freedom Wireless, Inc. v. Boston Comm’n Grp., Inc.*, 220 F. Supp. 2d 16, 19 (D. Mass. 2002) (assignment in employment contract applied to inventions “in the Company’s methods of conducting business” conceived by the employee during employment; inventions did not relate to employer’s business when prepaid wireless billing did “not relate to the methods of conducting a business dedicated to developing satellite-based and rocket-based services”).

*White Heat Petroleum Products Co. v. Thomas*, 109 A. 685, 686-87 (Pa. 1920) (employee assigned every invention “relat-

Since the evidence showed that no physical manifestations or detailed drawings of the patented baffle system existed before employment began, the invention was not made until after employment began. Furthermore, the employee created two-dimensional drawings of the baffle system, ordered the baffle plates, and personally participated in the first installation of those baffles in the employer's wells after his employment began. Accordingly, the baffle system was covered by the assignment in the employment agreement.

The employment agreement also excluded the employee's unpatented inventions that were listed and briefly described in the agreement from the assignment. The court held that this exclusion did not apply to the baffle system since "an invention necessarily requires at least some definite understanding of what has been invented."<sup>120</sup> The evidence showed that the employee had "little more than a vague idea" of the system before he began employment.<sup>121</sup>

Virtually all well-drafted assignments provide that the earliest creative event that triggers the employee's assignment obligation is conception.<sup>122</sup> In the absence of conception, the employee does not have an assignment obligation.<sup>123</sup> The critical issues are whether the

ing to the manufacture of bricks, stone products, earthenware products, and analogous and collateral products which he now has or may hereafter make or acquire during the period of his employment by said stoneworks and for one year after the termination thereof;" court held that this provision did not apply to an abrasive wheel for grinding iron, steel, and other hard metals; assignment was "limited to inventions relating to the manufacture of earthenware products and do not apply to or require the assignment of patents for the manufacture of all articles made from earth or clay; consequently a tool in the nature of an abrasive wheel, although composed principally of bauxite clay, is excluded from its terms as not coming within the meaning of the words 'earthenware products;'" "[W]here the product of an inventive mind is sought to be appropriated under an agreement to assign to another, the language of the agreement must be clear and show an unmistakable intention that the particular matter covered by the invention or patent is within the intention of the parties").

<sup>120</sup> 684 F.3d at 1287.

<sup>121</sup> *Id.* at 1287-88.

<sup>122</sup> Section 1.2(a)(v) of the Model Provisions provides for conception as the earliest Creative Event that triggers the Employee's assignment obligation.

<sup>123</sup> *Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205 (1st Cir. 1971) (employee who deliberately refrained from reducing his ideas to drawings or written description until after his resignation did not have an obligation to assign invention to employer); *New Jersey Zinc Co. v. Singmaster*, 71 F.2d 277, 279-80 (2d Cir. 1934) (employment contract provided, "All patentable ideas and devices originating with, or developed by, an employee of this Company, while in the employ of the Company, shall belong to the Company, and shall be formally assigned to the Company by the patentee;" when employee neither conceived nor reduced to practice improvements during his employment, employee did not have any obligation to assign patents for the improvements to the employer; "An employee is not forbidden, after leaving the services of his employer, from giving expression to inventive thoughts and ideas and indeed making improvements upon basic patents which have become the property of his former employer. Exercise of talents resulting in invention after termination of the employer-employee relationship entitles the employee to a grant of a patent and patent protection"); *Koehring Co. v. E.D. Etnyre & Co.*, 254 F. Supp. 334, 355, 362 (N.D. Ill. 1966) (employee's rough sketches and designs were not sufficiently de-

velopment during employment to trigger the employee's assignment obligation).

assignment applies to the conception of both inventions and ideas, and the definition of conception.

The classic definition of conception of an invention is the formation in the mind of the inventor of a definite and permanent idea of a complete and operative invention as the invention is to be applied in practice, and as corroborated by objective evidence.<sup>124</sup> Conception generally occurs regardless of whether the invention has been fully converted to tangible form, or whether it satisfies the patentability requirements of novelty and utility.<sup>125</sup> Indeed, conception may not require reduction of the invention to some tangible form.<sup>126</sup>

veloped during employment to trigger the employee's assignment obligation).

*Nat'l Dev. Co. v. Gray*, 55 N.E.2d 783, 788 (Mass. 1944); *Mosser Indus., Inc. v. Hagar*, 200 U.S.P.Q. (BNA) 608 (Pa. Ct. Com. Pl. Jan. 11, 1978) (agreement with Mosser Industries provided for assignment of any invention that the employee may conceive during his employment; court found that the employee conceived of a replaceable seat invention at Mosser Industries and not at his prior employer Rockwell Manufacturing Company; "Even though the defendant [the employee] did develop the individual elements of the invention at Rockwell, the combination of those elements into a working prototype occurred during defendant's employment at Moser. Furthermore, the defendant did not apply for a patent on the replaceable seat invention while employed at Rockwell, but applied several years later after developing a prototype at Mosser. This indicates that the invention was not sufficiently developed to make application for a patent at the time the defendant worked for Rockwell").

See also *White's Elecs., Inc. v. Teknetics, Inc.*, 677 P.2d 68, 72 (Or. Ct. App. 1984) (electrical engineer hired to invent new metal detector technology and whose idea for target-identification did not crystallize into a definite form of invention until after termination of employment did not have an obligation to assign invention to his employer; "White's argues that such a holding will encourage employed inventors deliberately to refrain from putting ideas into tangible form in order to circumvent employer's rights. Our response is that employers could protect themselves by requiring inventors to enter into contracts that provide that the employer is entitled to any inventions conceived during the term of employment and during a reasonable period of time after termination. In fact, White's required Payne to sign such an agreement during his first period of employment. Its failure to obtain such an agreement the second time around is fatal to its case").

<sup>124</sup> *Spansion, Inc. v. Int'l Trade Comms'n*, 629 F.3d 1331, 1356 (Fed. Cir. 2010); *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1577 (Fed. Cir. 1996); *Burroughs Wellcome Co. v. Barr Labs., Inc.*, 40 F.3d 1223, 1228 (Fed. Cir. 1994).

<sup>125</sup> *Nat'l Dev. Co. v. Gray*, 55 N.E.2d 783, 788 (Mass. 1944); *Morgan Adhesives Co. v. Questel*, 162 U.S.P.Q. (BNA) 61, 62 (Ohio Ct. Com. Pl. May 20, 1969) (employment contract required disclosure of "all inventions made or conceived by me along all lines of the company's work and investigations from the time of entering the company's employ until I leave;" purpose of employee's employment as Research Director was to discover a new method of producing pressure sensitive adhesives; very early in 1967 the employee conceived of a new process for preparation of pressure sensitive adhesives, and in June 1967 the employee left the company; less than two weeks later the employee formed a new corporation whose primary purpose was to enter the pressure adhesive field in competition with his former employer; before leaving the employee had made his idea known to third-parties and had solicited the financial backing to help him promote this idea and make it workable; court held that the employee conceived of the invention during employment; "The Court does not believe in the concept of old art as promoted by defendants. Everything in the universe is old art, to some extent, until it is reassigned and

reapplied with inventive genius. Neither is the Court impressed with the proposition that an invention does not become a reality until its mechanical aspects have been successfully completed. After all, defendant's contract does not only state inventions made, but states inventions conceived," whether the invention was patented was immaterial).

<sup>126</sup> See *Target Tech. Co., LLC v. Williams Advanced Materials, Inc.*, No. SA CV 04-1083, 2007 BL 303921, at \*13-14 (C.D. Cal. Feb. 6, 2007) (under employee patent and confidential information agreement, employee assigned his "entire right, title and interest in and to each invention, technological innovation, including all rights to obtain, perfect and enforce patents and other proprietary interests therein, in which I participate during the period of my employment with DADC, whether or not during working hours, which pertain to any line of work or investigation by DADC or is aided by the use of time, material, or facilities of DADC, or in which DADC expresses an interest;" employee expressed his invention in tangible form in a twelve page patent disclosure to his attorney; invention refers to the inventor's conception of an idea rather than its physical embodiment or reduction to practice); *Andreaggi v. Relis*, 408 A.2d 455, 464 (N.J. Ch. 1979) (employment agreement required employee "to communicate promptly to the Corporation and, upon request, to assign to it all of my right, title and interest in and to any and all inventions which I may make, or with respect to which I may be a joint inventor, while in the employ of the Corporation;" when an inventor conceived the basic idea, drew the schematics for the electrical circuitry of a magnetic document processing device, assembled the hardware to do the work, and documented the means of executing the idea, there was an invention; a model did not have to be built to the point of a salable product to the end user without further work; since the reference to a coinventor necessarily implied that the work of at least one other person was necessary to complete the work, the agreement embraced rights less than ones that were fully patentable by themselves).

See also *New Jersey Zinc Co. v. Singmaster*, 71 F.2d 277, 279 (2d Cir. 1934) (employment contract provided, "All patentable ideas and devices originating with, or developed by, an employee of this Company, while in the employ of the Company, shall belong to the Company, and shall be formally assigned to the Company by the patentee;" when employee conceived of invention ten months before he resigned, he had to assign the invention's patent to the employer; "Merely waiting until after his resignation became effective before applying for his patent and thereafter receiving the grant does not excuse the appellant from assigning to the appellee that which he conceived and labored upon, as he states, while in its employ").

*Cf. Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205, 210-11 (1st Cir. 1971) (under employment agreement employee assigned all inventions or improvements that the employee may make while in the employer's employ; court applied the definition of invention under federal patent law to define an invention under the agreement; patent concepts were used in conjunction with the word "invention" in the agreement, and under Massachusetts law the definition of "invention" coincided with the usage of the word in patent law; under these principles, an idea becomes an invention only when it is reduced to some tangible form; before an idea becomes a workable reality, severe and long-continued labor and repeated failures often occur, and success is not always achieved by one who first strikes out the idea).

*Natl Dev. Co. v. Gray*, 55 N.E.2d 783, 788 (Mass. 1944) ("[T]here is a distinction between the conception of an idea and the reduction of the idea to practice. The idea is only the starting point, and it does not become an invention until it is developed and perfected and becomes embodied in some tangible form which becomes some novel and useful device or process;" employee was hired for the specific purpose of developing and perfecting his employer's edge setting machine, and therefore had an implied obligation to assign the patent

As a practical matter, if an invention has reached the stage of a drawing or blueprint, or entries in a lab notebook witnessed by a colleague of the inventor,<sup>127</sup> conception has occurred. When a scientific endeavor requires empirical investigation before conception is complete, conception merges with reduction to practice.<sup>128</sup>

In *Brown v. Alcatel USA, Inc.*,<sup>129</sup> the court held that the term invention covered ideas. The employment agreement required the employee to provide the employer with all information concerning any discoveries or inventions he made or conceived while employed that related to the nature of the employer's business. The employee argued that his idea for converting computer code, known as the "Solution," was insufficiently developed to be an invention. He had not worked out the details of its operation, nor had he put it in writing. The court rejected the employee's argument, and relied on employee's memo to his immediate supervisor in which he stated, "I have developed a method of converting machine executable binary code into high level source code form using logic and date abstractions."<sup>130</sup>

that arose out of his employment to his employer; the employee "had progressed far beyond a mere mental concept of the new machine;" the drawing of the machine that the employee prepared before he left employment showed that the idea had crystallized into such definite form that the employee, his patent attorney, and investor knew in a general way the principles governing the machine's operation and its probable practical value).

Query whether these particular holdings of *Jamesbury* and *National Development Co.* requiring reduction of an invention to some tangible form remain viable after *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 60, 66-67 (1998) ("The primary meaning of the word 'invention' in the Patent Act unquestionably refers to the inventor's conception rather than to a physical embodiment of that idea. The statute does not contain any express requirement that an invention must be reduced to practice before it can be patented.") ("The word 'invention' must refer to a concept that is complete, rather than merely one that is 'substantially complete.' It is true that reduction to practice ordinarily provides the best evidence that an invention is complete. But just because reduction to practice is sufficient evidence of completion, it does not follow that proof of reduction to practice is necessary in every case.") (proof that invention is ready for patenting may be satisfied in one of two ways; proof of reduction to practice before the critical date, or proof that before the critical date the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention).

<sup>127</sup> See, e.g., *Gould v. Schawlow*, 363 F.2d 908 (C.C.P.A. 1966).

<sup>128</sup> See, e.g., *Amgen, Inc. v. Chugai Pharm. Co., Ltd.*, 927 F.2d 1200, 1206 (Fed. Cir. 1991) ("[W]hen an inventor is unable to envision the detailed constitution of a gene so as to distinguish it from other materials, as well as a method for obtaining it, conception has not been achieved until reduction to practice has occurred, i.e., until after the gene has been isolated.")

<sup>129</sup> No. 05-02-01678-cv, 2004 BL 3164 (Tex. Ct. App. June 28, 2004).

<sup>130</sup> For a trenchant analysis of the *Brown* decision, see Orly Lobel, *Talent Wants to be Free* 144 (Yale U. Press 2013) ("[T]he Solution at the heart of the dispute had remained in its incubation stages throughout the dispute. The idea, while valuable, was incomplete and still abstract. Brown had not worked out the details of its operation, and he had not put it in writing. The Solution never left his mind. For all of these reasons, coercing disclosure at such an early stage of innovation appears technically premature and ethically harsh. Pragmatically and, indeed, cynically, the legal result leads to the conclusion that

The lesson of *Brown* is that to show conception of an idea, courts are unlikely to require reduction of the idea to some tangible form.

Finally, since a court may not always treat an “invention” as synonymous with an “idea,” the omission of “idea” in an assignment can deprive an employer of an idea for a major new product. As shown by the discussion of the Bratz doll litigation, this omission had painful consequences for Mattel.<sup>131</sup>

Under section 1.2(a)(i)(T) and (X) of the Model Provisions, the definition of Work Product includes ideas and inventions.

## Ambiguity in Assignments Under State Law

It is not uncommon for courts to find an assignment ambiguous under state law principles of contractual construction.

In *SiRF Tech., Inc. v. Int’l Trade Comm’n*,<sup>132</sup> an employee inventions agreement provided that the employee assigned inventions “related to or useful in the business of the Employer.”<sup>133</sup> The court held that this language was “inherently ambiguous,” and extrinsic evidence was necessary to determine its meaning. Extrinsic evidence could include evidence of the nature of the employer’s business and the employee’s work for the employer, as well as evidence of the parties’ conduct as to whether they regarded the invention covered by the assignment.

In *DDB Techs., LLC v. MLB Advanced Media, LP*,<sup>134</sup> an employment agreement required the employee to assign inventions “related to” or “suggested by” the employee’s work for the employer. The court held that this language was ambiguous, and resort to extrinsic evidence was necessary. The relevant extrinsic evidence would consist of the nature of the employer’s business, the employee’s work, and the parties’ conduct.<sup>135</sup>

*Brown* would have been better off never revealing the fact that he had an idea, but rather quitting and going off on his own to develop it. Consequently, transferring ownership of fledgling and individually conceived innovation may impede the move from conception to a full blueprint by disincentivizing the very person who possesses the foundational ingredients.”

See also *SinoMab Bioscience Ltd. v. Immunomedics, Inc.*, No. 2471, 2009 BL 132773, at \*14 (Del. Ch. June 16, 2009) (Strine, V.C.) (under Assignment and Confidentiality Agreement, employee assigned “all ideas, inventions, discoveries, and improvements (whether or not patentable or subject to copyright protection) which I make, originate, conceive, or reduce to practice during my employment with [Immunomedics];” “[J]ust replacing FR4 was not a new idea, nor was it an idea that belonged to Immunomedics. Rather, the record shows that using a separate sequence for FR4 was generally known to molecular biologists. Thus, Leung had no obligation to assign it. On the other hand Framework Patching is, at least to some extent, a new idea. Thus, the second, more complicated question is whether Leung had to assign his Framework Patching idea because Leung actually conceived of that invention during his time at Immunomedics”) (New Jersey law) (footnotes omitted).

<sup>131</sup> See discussion *infra* notes 151-157 and accompanying text.

<sup>132</sup> 601 F.3d 1319, 1326-27 (Fed. Cir. 2010).

<sup>133</sup> *Id.* at 1326-27.

<sup>134</sup> 517 F.3d 1284 (Fed. Cir. 2008).

<sup>135</sup> *Id.* at 1292.

In *Odyssey Wireless, Inc. v. Apple Inc.*,<sup>136</sup> an intellectual property and confidential information agreement required the employee to assign all his right, title, and interest in all proprietary rights in all work product “which refer to or result from my work for MSV during my employment by MSV and which relate to MSV’s current, anticipated, or prospective business activities.” The court, citing *SiRF Technology*, found this provision ambiguous:

The terms “work for MSV” and “MSV’s current, anticipated, or prospective business activities” are not expressly defined in the agreement, and the meaning of the terms is not apparent from the face of the agreement. Because these terms could be understood in multiple ways, they are ambiguous, and it is necessary to resort to extrinsic evidence to ascertain the intention of the parties.<sup>137</sup>

In *Motorola, Inc. v. Lemko Corp.*,<sup>138</sup> an employment agreement required the employee to assign inventions “related to the actual or anticipated business activities of Motorola, or result from, or are suggested by, work which I do for Motorola.”<sup>139</sup> The court, citing *SiRF Technology* and *DDB Technologies*, held that this language was ambiguous, and resort to extrinsic evidence was necessary.

The employment agreement also applied to “inventions, innovations, or ideas developed or conceived . . . during the term of my employment.” The court held that this language was not ambiguous. It was sufficiently clear that a jury could examine evidence of when the inventions or ideas embodied in the patents first came into existence, and determine whether the employees’ work on the inventions or ideas occurred during the term of employment.

The treatment of the term “related to” as ambiguous is inaccurate in the sense that more precise drafting would have cured the ambiguity.<sup>140</sup> Rather, the drafting

<sup>136</sup> No. 3:15-cv-01735-H, 2016 WL 4496844 (S.D. Cal. June 30, 2016).

<sup>137</sup> *Id.* at \*5.

<sup>138</sup> No. 1:08-cv-05427, 2012 BL 5305 (N.D. Ill. Jan. 10, 2012).

<sup>139</sup> *Id.* at \*5.

<sup>140</sup> The classic test for ambiguity is whether the language is susceptible of more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement, and is cognizant of the customs, practices, usages, and terminology as generally understood in the particular trade or business. *Gary Friedrich Enters., LLC v. Marvel Characters, Inc.*, 716 F.3d 302, 313-14 (2d Cir. 2013) (language is unambiguous if it has a definite and precise meaning, unattended by the danger of misconception, and concerning which there is no reasonable basis for difference of opinion; if the terms suggest more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement, then the agreement is ambiguous and extrinsic evidence may be considered to determine the parties’ intent) (New York law); *Law Debenture Tr. Co. v. Maverick Tube Corp.*, 595 F.3d 458, 467 (2d Cir. 2010) (a contract is unambiguous when the “language has a definite and precise meaning unattended by danger of misconception in the purport of the contract itself, and concerning which there is no reasonable basis for a difference of opinion”) (internal quotation marks omitted) (New York law).

See generally Saabira Chaudhuri, “‘Craft’ Startups to Test Big Liquor Makers,” *Wall St. J.*, Aug. 29-30, 2015, at B4 (“‘There’s a renaissance in America now with a craft movement happening in coffee, bread, beer and now spirits,’ said

issue is vagueness. For many employers the term “related to” is necessarily vague in light of the breadth of their current businesses, the uncertainty of what their future businesses might be, and the need to protect the intellectual property of each of these businesses.<sup>141</sup> The author of the American Bar Association contract drafting treatise has pointed out the unavoidable uncertainty of vague terms:

Vagueness is unique among the sources of uncertainty, in that it’s not inherently pernicious. Drafters routinely make use of vagueness vague words and phrases that are commonplace in contracts include *reasonable efforts*, *material* and *material adverse change*, *promptly* and *immediately*, *reasonable*, *satisfactory*, *substantially*, and *undue*. Drafters invoke vagueness whenever lack of control (over the future, over someone else’s conduct) renders precise standards unworkable.<sup>142</sup>

In *PerDiemCo, LLC v. IndusTrack LLC*,<sup>143</sup> the court construed inconsistent language as to whether an assignment was an automatic assignment, or an agree-

Bill Owens, president of the [American Distilling Institute]. Behind small brands – many of which blend and bottle their products by hand – is ‘a story that the big boys can’t tell,’ he said. The big boys beg to differ. And they haven’t let definitions stop them from climbing on the bandwagon with what they describe as craft bourbons, whiskeys and vodkas. According to the American Distilling Institute’s circuitous interpretation of the term, a craft distillery must be no more than 25% owned by an alcoholic beverage company that isn’t a craft distiller. It also says the production process needs to be ‘hands-on’ and that maximum annual sales must be less than 100,000 proof gallons, an alcohol-industry volume measure. Large spirits makers say craft isn’t about the size of a brand but rather about delivering quality. ‘Craft is just a label,’ said Ivan Menezes, chief executive officer of Diageo, the world’s largest spirits maker, in an interview. ‘The real question is, how do you engage with consumers around authenticity, craftsmanship and stories that resonate?’ It is clear that ‘craft’ comes with a certain cachet, said Tom Mooney, president of the American Craft Spirits Association, a nonprofit. ‘The brand equity of the word craft is spectacular,’ he said. ‘It implies more care, greater quality, that you’re supporting something from within your community.’”

<sup>141</sup> See Mike Baniak & Todd Dawson, “Discussion of Employer Assignment Agreements After *DDB Tech. v. MLB Advanced Media*,” 7 *Nw. J. Tech. & Intell. Prop.* 298, 302-03 (Summer 2009) (“I have been at Zimmer for 18 years, and what related 18 years ago, when you signed your employment agreement, versus what it would relate to now. We now have biologics. We are growing cartilage. We have an ungodly amount of technologies that never existed when you may have joined 20 years ago or when I joined 18 years ago. I think you have to – in my world and from my view, we are going to keep ‘relates’ as relates to the business, and make it a point in time. When you invented it, did it relate to the business or what was the business at the time? And as we would probably also extend it, not just relating to the business as far as what you all see on the marketplace and what is getting sold, but it also relates to the business in directions that we are going to be going because, clearly, these guys are working with things that are 3 and 5 and 10 years out. So we would extend that ‘relates’ world – the word ‘relates’ is going to be pretty broad, pretty ambiguous.”) (statement of Todd Dawson, Esq., Vice President of Legal Affairs, Zimmer Inc.).

<sup>142</sup> Kenneth A. Adams, *A Manual of Style for Contract Drafting* ¶ 7.34 (3d ed. ABA 2013) (internal cross-references omitted).

<sup>143</sup> No. 2:15-cv-00727, 2016 BL 366453 (E.D. Tex. Oct. 18, 2016) (Report and Recommendation of Roy S. Payne, U.S.M.J.), *adopted*, 2016 BL 365545 (E.D. Tex. Nov. 2, 2016) (Gilstrap, J.).

ment to assign in the future. The Assignment Agreement signed by Darrell Diem, a software engineer employed by Time Domain Corporation, provided:

I hereby assign to Company my entire right to all the Work Product, which Work Product is and will be the sole and exclusive property of the Company; provided however, that I shall not be required to assign to Company any invention that I developed entirely on my own time without using Company’s funds, equipment, materials, facilities or trade secret information except for those inventions that either: (i) relate at the time of conception or reduction to practice of the invention to Company’s business, or actual or demonstrably anticipated research or development of Company, or (ii) result from or are related to or suggested by any Company research, development or other activities, including, without limitation, any worked performed by me for Company.

If the assignment was an automatic assignment to Time Domain, then PerDiem, as a subsequent assignee of Darrell Diem, lacked legal title to the patent and therefore standing to bring an action for infringement. If the assignment was an agreement to assign in the future, then Darrell Diem’s subsequent assignment to PerDiem was valid, and PerDiem held legal title to the patent and therefore had standing to bring an action for infringement.

The court held that the assignment was ambiguous:

On the one hand, all “Work Product” is expressly and automatically assigned to Time Domain, without reference to whether such Work Product is independently developed by Mr. Diem without using company resources. On the other hand, the Agreement appears to create a future obligation to assign Mr. Diem’s independent inventions if those inventions meet the relatedness requirements. The fact that the Agreement states that Mr. Diem “shall not be required to assign” certain independent inventions suggests that such inventions are only subject to a future assignment obligation if the relatedness requirements are met.<sup>144</sup>

The court resolved the ambiguity by looking at the relationship between the assignment language and the other provisions of the Assignment Agreement. The other provisions taken together showed that Mr. Diem’s independent inventions were at most subject to a future obligation to assign, depending on whether those inventions met the relatedness requirements of the Agreement.

First, the third paragraph of the Agreement provided that after termination of employment, Time Domain would compensate Mr. Diem on an hourly basis if he had to give testimony or take other actions that required more than a signature on an assignment document. Second, the fourth paragraph of the Agreement required Mr. Diem to cooperate with Time Domain in the procurement and maintenance of its rights in Work Product, and to sign all papers that Time Domain may deem necessary and desirable for vesting Time Domain with such rights.

The court found that if all Work Product automatically transferred to Time Domain, it would be unnecessary for Mr. Diem to subsequently sign any paper to vest Time Domain with rights. Since the record evidence established that Mr. Diem developed the inventions independently without using Time Domain’s resources, title to Mr. Diem’s inventions vested in him, and was thereafter transferred to PerDiem. Accord-

<sup>144</sup> 2016 BL 366453, at \*8 (E.D. Tex. Oct. 18, 2016).

ingly, PerDiem had legal title to the inventions and therefore had standing.

The court also found that the course of performance was consistent with an obligation to assign in the future. Time Domain's director of intellectual property had advised Mr. Diem that his independent inventions should not be the rightful intellectual property of Time Domain. In addition, Time Domain's standard practice was for an employee to bring his or her independent work to Time Domain's attention. Finally, Mr. Diem understood the Assignment Agreement to mean that if he did anything on company equipment, or used company materials, the company owned the invention.

Finally, the court found that if all Work Product was automatically assigned, then the director of intellectual property would have been required to do more than evaluate an employee's independent work to determine whether Time Domain should own it. Steps would have been taken to assign the invention back to the employee. Thus, the course of performance showed that the director evaluated an employee's independent invention to determine whether the employee had an obligation to assign the invention to Time Domain.

Section 1.2(m) of the Model Provisions contains an exception to the Employee's assignment obligations for inventions covered by a state freedom to invent statute.<sup>145</sup> To avoid the ambiguity found by the court in *PerDiem*, section 1.2(m) specifically refers to the Employee's present assignments of expectant interests and the Employee's obligations to assign inventions in the future in the other provisions of section 1.2:

To the extent not already provided under this section 1.2, the Employee's present assignments of expectant interests in inventions do not apply, and the Employee's obligations to assign inventions in the future will not apply, to any invention that the Employee developed entirely on the Employee's time and without using the Employer's or a Related Entity's equipment, facilities, supplies, or trade secret information. The foregoing exclusions do not apply to inventions that either: (i) relate to the time of conception or reduction to practice of the invention to the Employer's or Related Entity's business, or actual or demonstrably anticipated research or development of the Employer or Related Entity; or (ii) result from any work performed by the Employee for the Employer or Related Entity. To the extent that any provision of this section 1.2 purports to be a present assignment of expectant interests in inventions that is not permitted under this section 1.2(m), or purports to require an assignment of inventions in the future that is not permitted under this section 1.2(m): (iii) this section 1.2(m) controls over that provision; and (iv) that provision is against the public policy of [name of state] and is unenforceable.

Section 1.2(g)-(k) provides for the present assignment of expectant interests in Work Product, New Exploitation Rights, New Exploitation Methods, and Hold-over Product. Only when the present assignment of expectant interests is not effective in a particular jurisdiction does the Employee have the future obligation to assign the item to the Employer. The exception in section 1.2(m) for inventions covered by a state freedom to invent statute refers to these present assignments of expectant interests and obligations to assign inventions in the future. Accordingly, the exception in section 1.2(m) should not create an exception to the

present assignment of expectant interests in section 1.2(g)-(k).

Section 1.2(p)-(q) of the Model Provisions sets forth the Employee's obligations to sign all applications, assignments, and powers-of-attorney, and perform all other acts to procure and maintain registrations and other protections for Work Product. When an agreement provides for a present assignment of expectant interests, other provisions that require an employee's cooperation in future assignments and the application process for registrations and other protections do not limit the effectiveness of present assignments.<sup>146</sup> Accordingly, section 1.2(r) of the Model Provisions prophylactically provides, "The provisions of section 1.2(p)-(q) do not limit the effectiveness of the present assignments of expectant interests under this agreement."

In *Abbott Point of Care, Inc. v. Epcal, Inc.*,<sup>147</sup> the court reconciled different assignment provisions in a series of agreements. An independent contractor agreement with a former employee did not contain an assignment of patents, but the prior employment agreement that had been terminated did. Under both federal and state law, the independent contractor agreement did not provide the former employer with ownership of the patents. As a result, under federal law the former employer lacked standing to bring an action for infringement.<sup>148</sup>

In *Epcal*, Dr. Imants Lauks was an employee of Integrated Ionics Incorporated and i-STAT Corporation, predecessors of Abbott Point of Care, Inc. Lauks entered into an employment agreement with Integrated Ionics on January 10, 1984 that contained the following assignment:

I agree to promptly communicate to Integrated Ionics, and to assign to Integrated Ionics or its designee all of my rights in, any inventions, improvements or discoveries, whether patentable or not, which I currently own or possess or which I may make or conceive during my employment by Integrated Ionics or which relate to any present or prospective activities of Integrated Ionics; and I hereby assign to Integrated Ionics and authorize and request competent patent authorities, domestic and foreign, to honor and recognize this document as a full and complete assignment thereof.

Integrated Ionics subsequently became i-STAT, and Lauks signed an employment agreement with i-STAT on January 29, 1992. The 1992 agreement covered Lauk's duties, compensation, benefits, termination, and severance pay. Lauks resigned from i-STAT on September 1, 1999, and signed an eighteen month consulting agreement with i-STAT that expired on March 1, 2001.

The 1999 consulting agreement stated that Lauks "resigns from all his positions" at i-STAT, and that the agreement "does not extend to work on new products, whether or not based on [i-STAT's] core technology and whether or not for point-of-care blood analysis applications." The consulting agreement gave Lauks and i-STAT a flexible work schedule in recognition of

<sup>146</sup> See *DDB Techs., LLC v. MLB Advanced Media, LP*, 517 F.3d 1284, 1290 n. 3 (Fed. Cir. 2008) (in light of the clear language of a present assignment of expectant interests, the employee's covenant to execute specific assignments and do anything else properly requested by the employer at any time during or after employment was of no import).

<sup>147</sup> 666 F.3d 1299 (Fed. Cir. 2012).

<sup>148</sup> *Id.*

<sup>145</sup> For the freedom to create statutes of eight states, see discussion *infra* notes 158-167 and accompanying text.

“Lauks’ desire to pursue other, non-conflicting interests.” The confidentiality provision stated that “the existing agreement between Lauks and [i-STAT] regarding confidentiality, non-solicitation and non-competition (the ‘Existing Confidentiality Agreement’) shall remain in place as if Lauks remained employed by [i-STAT], except that the covenants regarding non-competition shall run 18 months after the execution of the Consulting Agreement.” The 1999 consulting agreement did not address invention assignments or obligations.

In June 2001, Lauks filed applications for two patents for systems and devices for testing blood samples. Lauks identified himself as the sole inventor. In December 2003, Lauks assigned the patents to Epocal. Abbott acquired i-STAT in 2004.

On August 25, 2009, Abbot sued Epocal for patent infringement, and claimed legal title to the patents under the assignment of invention clause of the 1984 employment agreement. Abbott also claimed that the 1999 consulting agreement recognized that the 1984 agreement and its assignment remained in effect for the duration of the consulting term. Finally, Abbott claimed that Lauks conceived the inventions before March 1, 2001, thereby giving Abbott ownership rights.

The court held that the history of the agreements showed that Lauks had not assigned the inventions to Integrated Ionics and i-STAT. Lauks’ resignation from i-STAT terminated his employment. Accordingly, the 1984 and 1992 employment agreements ended when he ceased to be an employee in 1999. The 1999 consulting agreement did not specify that the entire 1984 employment agreement would remain in effect for the duration of Lauks’ consulting period. The confidentiality provision of the 1999 consulting agreement, entitled, “Continuation of Employee Confidentiality, Non-Solicitation and Non-Competition Covenants,” retained the existing confidentiality agreement. That provision was explicitly limited to confidentiality, non-solicitation, and non-competition, without reference to any assignment obligation.

Furthermore, the 1999 consulting agreement did not contain any obligation that Lauks assign rights in inventions, improvements, or discoveries made or conceived during the consulting period. Rather, the agreement allowed Lauks to pursue other, nonconflicting interests, and excluded work on new products, regardless of subject matter, including point-of-care blood analysis applications. “Because the 1999 Consultation Agreement is silent with respect to any assignment of Lauks’ rights in inventions, improvements, or discoveries made or conceived during the consultation period, Lauks had no obligation to assign inventions from the consulting period to i-STAT.”<sup>149</sup>

A dissenting judge found it ambiguous as to whether the 1999 agreement incorporated by reference the assignment of invention clause of the 1984 and 1992 agreements. Accordingly, extrinsic evidence was necessary to determine the parties’ intent. The parties agreed that the 1992 employment agreement referenced the entirety of the 1984 agreement in two ways. First, the 1992 agreement contained a shorthand title to the untitled 1984 document: the “Confidentiality and Non-Competition Agreement.” That shorthand title did not include a specific reference to all the covenants of the

1984 agreement, but was intended to refer to the entire 1984 agreement, including the assignment of invention clause.

Second, Lauks and i-STAT identified the 1984 agreement by describing some, but not all, of the subject matter of the 1984 agreement. Even though the 1992 agreement did not use the word “assignment,” Epocal acknowledged that Lauks’ assignment obligations carried over into the 1992 agreement because the 1992 agreement incorporated by reference all of Lauks’ obligations in the 1984 agreement.

Accordingly, if the assignment obligation in the 1984 agreement was incorporated into the 1992 agreement, there was no reason to interpret the similar terms of the 1999 agreement to exclude the assignment obligation.

The lesson of *Epocal* is that employers and contractors that wish to acquire inventions through assignments should ensure that all governing documents contain the appropriate assignment, especially after any change in the parties’ relationship.<sup>150</sup>

## Ambiguity and the Bratz Doll Litigation

When an assignment is ambiguous as to the inventions covered by it, an employee’s former employer that entered into the assignment and the employee’s current employer can make competing claims to any particular invention. The litigation in *Mattel, Inc. v. MGA Entm’t, Inc.*,<sup>151</sup> is a classic example of an ambiguous assignment resulting in competing claims.

Mattel, the maker of the Barbie doll, entered into an employment agreement with an employee in the Barbie Collectibles department who designed fashion and hair styles for high-end Barbie dolls. The employment

<sup>150</sup> See also *White’s Elecs., Inc. v. Teknetics, Inc.*, 677 P.2d 68 (Or. Ct. App. 1984) (employment agreement of electrical engineer entered into in 1971 provided for engineer to assign inventions developed during employment and for six months after termination of employment that related to employer’s activities or was the result of tasks assigned to engineer by employer; engineer terminated employment in mid-1976 and went to work for a competitor; engineer became reemployed in Jan. 1980, but did not sign a new employment agreement; 1971 employment agreement was not revived by reemployment).

*Mosser Indus., Inc. v. Hagar*, 200 U.S.P.Q. (BNA) 608, (Pa. Ct. Com. Pl. Jan. 11, 1978) (employee entered into an employment contract on March 24, 1969 that did not contain an assignment, an invention assignment agreement on March 26, 1969, and a second employment contract on Sept. 29, 1971; the second employment contract contained a merger clause providing, “This agreement contains the entire understanding of the parties and there are no representations, covenants, or other undertakings other than those herein;” court held that under the merger clause the second employment agreement superseded the March 26, 1969 invention assignment agreement, and rendered it unenforceable) (employee entered into a second invention assignment agreement on Sept. 28, 1973; at the request of the employer’s president, employee tendered a letter on Feb. 14, 1974 cancelling his Sept. 29, 1971 employment contract; court held that the Sept. 28, 1973 invention assignment agreement continued in effect; the letter specifically addressed cancellation of the employment contract and was devoid of any reference to the invention assignment agreement; in addition, approximately eighteen months after the employee sent the letter, he assigned an invention to the employer, and later consulted the employer’s patent counsel to make patent applications for several other inventions).

<sup>151</sup> 616 F.3d 904 (9th Cir. 2010).

<sup>149</sup> 666 F.3d at 1303.

agreement provided, "I agree to communicate to the Company as promptly and fully as practicable all inventions (as defined below) conceived or reduced to practice by me (alone or jointly by others) at any time during my employment by the Company. I hereby assign to the Company . . . all my right, title and interest in such inventions, and all my right, title and interest in any patents, copyrights, patent applications or copyright applications based thereon."

The agreement also provided that "the term 'inventions' includes, but is not limited to, all discoveries, improvements, processes, developments, designs, know-how, data computer programs and formulae, whether patentable or unpatentable." The definition did not include ideas.

In addition, the agreement excepted inventions protected under California Labor Code Section 2870, which limits an employer's ability to use an employment agreement to assign inventions that are unrelated to the employer's business, or the employer's actual or demonstrably anticipated research or development.

The federal district court for the Central District of California granted Mattel summary judgment on the issue of the scope of the employee's assignment. The court held that the term "invention" covered the employee's ideas for the Bratz and Jade dolls. Therefore, the absence of an assignment of "ideas" did not make a difference. On appeal, the Ninth Circuit found that the definition of invention was ambiguous, reversed the grant of summary judgment, and remanded the case to the district court.

The Ninth Circuit pointed out that ideas were markedly different from most of the listed examples of inventions. Designs, processes, computer programs and formulae are concrete, unlike ideas, which are ephemeral and often reflect bursts of inspiration that exist only in the mind. On the other hand, the agreement also listed less tangible inventions such as know-how and discoveries. In addition, the employee may have transferred rights in innovations that were not embodied in a tangible form by assigning inventions he conceived as well as those he reduced to practice.<sup>152</sup>

The Ninth Circuit held that in light of the ambiguity, the district court judge should have considered extrinsic evidence. Moreover, even if the judge had considered extrinsic evidence, the judge may not have been able to determine the meaning of invention. If the meaning turned in part on the credibility of conflicting extrinsic evidence, a properly instructed jury should have decided the issue.

The Ninth Circuit found that the extrinsic evidence submitted at various stages of the litigation was conflicting. Other agreements for Mattel employees assigned their ideas as well as their inventions. On the other hand, a Mattel executive testified at deposition

<sup>152</sup> See also *Motorola, Inc. v. Lemko Corp.*, No. 08-cv-05427, 2012 BL 5305, at \*10-11 (N.D. Ill. Jan. 10, 2012) (employment agreement with Motorola provided that employee hereby assigns "all my inventions, innovations, or ideas developed or conceived by me solely, or jointly with others, at any time during the term of my employment and which inventions, innovations, or ideas related to the actual or anticipated business activities of Motorola, or result from, or are suggested by, work which I do for Motorola;" a reasonable jury could find that patents obtained by Lemko, the subsequent employer, came from ideas developed or conceived while employed at Motorola).

that it was common knowledge in the design industry that terms like invention and design included an employee's ideas.

The Ninth Circuit also addressed whether the employment agreement assigned the employee's preliminary Bratz drawings and sculpt. The assignment covered inventions conceived or reduced to practice "at any time during my employment by the Company." Although the drawings and sculpt were inventions, MGA, the subsequent employer, argued that they were not covered by the assignment because the employee created them outside the scope of his employment with Mattel and on his own time. The employee wasn't tasked with creating new doll lines at Mattel; rather, he designed fashions and hair styles for Barbie Collectibles. Accordingly, the employee created the Bratz designs and came up with the names Bratz and Jade outside the scope of his employment.

The Central District of California granted Mattel summary judgment on this issue, and held that the assignment covered inventions even if they were not made during working hours so long as they were created during the time period that the employee was employed by Mattel. The Ninth Circuit reversed, and held that the phrase "at any time during my employment" was ambiguous.<sup>153</sup> The phrase could refer to the entire period during which the employee worked for Mattel, including nights and weekends. Yet it could also cover

<sup>153</sup> See also *Georgia-Pacific Corp. v. Lieberam*, 959 F.2d 901 (11th Cir. 1992) (in 1985 Lieberam worked for Georgia-Pacific on a student visa that allowed him to work on a temporary, six month basis, and then returned to Germany; in November 1986 he came back to the United States to work for Georgia-Pacific on a temporary visa, and originated an improved condenser system the design of which was contained in a report entitled "Design of the CondenserSystem;" Lieberam's employment and temporary visa expired in September 1987; after reviewing the report, Georgia-Pacific offered Lieberam permanent employment, which he accepted; on October 2, 1987, before his permanent employment began, Lieberam signed the Invention Agreement; Lieberam obtained a permanent visa and in January 1988 he began work for Georgia-Pacific; the Invention Agreement provided, "Any invention, improvement, or discovery, whether or not patentable, that relates to past or present business of Georgia-Pacific (including research and evaluation), which I may conceive or make, either alone or in conjunction with others, during my employment by Georgia-Pacific or within six months immediately thereafter, shall be the sole and exclusive property of Georgia-Pacific;" court held that the language "during my employment" was ambiguous as to whether it applied retrospectively and prospectively and covered the condenser, or only prospectively and did not cover the condenser; extrinsic evidence may be examined to determine the parties' intent when they signed the Invention Agreement).

*Cf. Andreaggi v. Relis*, 408 A.2d 455, 460 (N.J. Ch. 1979) (employment agreement required employee "to communicate promptly to the Corporation and, upon request, to assign to it all of my right, title and interest in and to any and all inventions which I may make, or with respect to which I may be a joint inventor, while in the employ of the Corporation;" court held that the term "while in the employ of the Corporation" defined the inventions that are intended to be conveyed, and did not limit the time period in which an assignment must be requested or forever lost; "[A] construction of the contract language that the employer had to request an assignment of a co-inventor's right to patents before the employee left its employ would be impractical. A review of the cases as well as the testimony in this case show that there is mobility between employers by those working on inventions").

only those inventions created during work hours, possibly including lunch and coffee breaks.

Mattel argued that since employers were already considered the authors of works made for hire, the assignment had to cover works outside the scope of employment. Otherwise, employees would be assigning to Mattel works that Mattel already owned. The Ninth Circuit rejected this argument, and held that the assignment provided Mattel additional rights by covering more than just copyrightable works.

Furthermore, the extrinsic evidence did not resolve the ambiguity. One employee testified that it was common knowledge that other employees were moonlighting doing other work, which was not a problem as long as it was done on their own time and at their own house. Another employee testified that everything I did while I was working for Mattel belonged to Mattel.

The Ninth Circuit held that the issue of the scope of the assignment should have been submitted to the jury with instructions to determine whether the assignment covered works outside the scope of employment at Mattel, and whether the employee's creation of the Bratz drawings and sculpt was outside the scope of employment.

In the trial on remand, MGA countered Mattel's claim of ownership under the assignment with a claim for trade secret misappropriation by gaining entry to toy fairs with fake identification to misappropriate trade secrets. The jury found for MGA, and awarded it \$88.5 million in damages for trade secret misappropriation.<sup>154</sup>

Two commentators point out that had the employment agreement provided that all doll and toy designs were part of the employee's duties, or specified that any new products involving dolls or toys were developed for the employer's benefit, Mattel might have prevailed.<sup>155</sup> Furthermore, when an assignment is limited to inventions derived from the employee's work for the employer, courts are likely to enforce the assignment.<sup>156</sup> An employer has a legitimate business interest in protecting inventions that are the fruits of its employees' efforts while working for the employer.<sup>157</sup>

<sup>154</sup> Orly Lobel, *Talent Wants to be Free* 162 (Yale U. Press 2013).

<sup>155</sup> Jon M. Garon & Elaine D. Ziff, "The Work Made for Hire Doctrine Revisited: Startup and Technology Employees and the Use of Contracts in a Hiring Relationship," 12 *Minn. J. L. Sci. & Tech.* 489, 509-10 (Spring 2011).

<sup>156</sup> See, e.g., *St. John's University v. Bolton*, 757 F. Supp. 2d 144, 162 (E.D.N.Y. 2010).

<sup>157</sup> *Milliken & Co. v. Morin*, 731 S.E.2d 288 (S.C. 2012) (court enforced assignment that required invention assigned to relate to the employer's business or actual or demonstrably anticipated research or development, and to result from the work that the employee performed for the employer; assignment also provided that it did not apply if the invention did not relate to the employer's business or actual or demonstrably anticipated research or development, or did not result from any work that the employee performed for the employer); *Grocera v. Gen. Hosp. Corp.*, No. 11-991, 2012 BL 213250, at \*5 (Mass. Super. Ct. July 12, 2012) (Lauriat, J.) (court upheld assignment for inventions "that arise out of or relate to the clinical, research, educational or other activities of the Inventor" at Massachusetts General Hospital; "Nor does the court consider the IP Policy to be unreasonable. Nothing prohibits Dr. Grocera from practicing medicine either in Massachusetts or elsewhere. That he would lose his privileges at MGH and Partners' affiliates should he refuse to be bound by the terms of the

Under section 1.2(a)(vi) of the Model Provisions, an element of the definition of Work Product is that a Creative Event arises from or relates to the Employer or any Related Entity. Section 1.2(b) of the Model Provisions provides that a Creative Event arises from or relates to the Employer or any Related Entity if the Creative Event arises from or relates to:

- (i) the Employer's or any Related Entity's Confidential Information, equipment, facilities, supplies, or other Work Product; (ii) any project that the Employee participates in or supervises for the Employer or any Related Entity; (iii) any task that the Employee performs or supervises for the Employer or any Related Entity; (iv) a Creative Event that occurs on the Employer's or any Related Entity's time; (v) [Alternative 1: any prior, current, or reasonably anticipated research or development of the Employer or any Related Entity;] [Alternative 2: any current or reasonably anticipated research or development of the Employer or any Related Entity] [Alternative 3: any actual or demonstrably anticipated research or development of the Employer or any Related Entity;] or (vi) [Alternative 1: any current or reasonably anticipated business of the Employer or any Related Entity;] [Alternative 2: any business of the Employer or any Related Entity.]
- Clauses (i), (ii), (iii), (v), and (vi) of this Section 1.2(b) apply without regard to whether the Creative Event occurs on the Employer's or any Related Entity's time, the Employee's time, or any combination thereof.

To avoid the ambiguity found by the Ninth Circuit in the language of "at any time during my employment by the Company," section 1.2(b) of the Model Provisions provides that clauses (i), (ii), (iii), (v), and (vi) apply without regard to whether the Creative Event occurs on the Employer's or any Related Entity's time, the Employee's time, or any combination thereof. In addition, section 1.2(a)(i)(T) and (V) includes ideas and innovations in the definition of Work Product.

## Freedom to Create State Statutes

Eight states have enacted "freedom to create" statutes that prohibit assignments of inventions when an employee does not use the employer's equipment, facilities, supplies, or trade secrets, and develops the invention entirely on his or her own time.<sup>158</sup> For example,

Policy is immaterial. As a member of the staff, he reaps the benefit of the clinical resources, office space, access to doctor-patient relationships and professional prestige available to a physician who practices at one of this country's major teaching hospitals. In return, he has agreed to contribute to the research and educational objectives of the Urology Department. This kind of *quid pro quo* underlies almost every professional association. Furthermore, the defendants have a legitimate public interest in freely sharing staff inventions to further research and, in the end, benefit the population the defendants serve, that is, their patients. This outweighs any possible (and purely speculative) restraint on competition."

<sup>158</sup> California Labor Code Section 2870; Delaware Code Title 19 Section 805; Illinois 765ILCS1060/1-3; Kansas Statutes Section 44-130; Minnesota Statutes 13A Section 181.78; North Carolina General Statutes Article 10A, Chapter 66, Commerce and Business, Section 66-57.1; Utah Code Sections 34-39-1 through 34-39-3; Washington Rev. Code, Title 49 RCW: Labor Regulations, Chapter 49.44.140.

See generally Parker A. Howell, "Whose Invention Is It Anyway? Employee-Invention Assignment Agreements and Their Limits," 8 *Wash. U. J.L. Tech. & Arts* 79 (Fall 2012); Orly Lobel, "The New Cognitive Property: Human Capital Law and the Reach of Intellectual Property," 93 *Tex. L. Rev.* 789, 823-24 (March 2015); Donald J. Ying, "A Comparative Study of the

when an employee uses the employer's computers, the prohibition does not apply.<sup>159</sup>

The prohibition does not apply if the invention relates to the employer's business,<sup>160</sup> or actual or demonstrably anticipated research and development.<sup>161</sup> The prohibition also does not apply if the invention results from the employee's work for the employer.

For example, the California statute provides:

§ 2870. Employment agreements; assignment of rights

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under

Treatment of Employee Inventions, Pre-Invention Assignment Agreements, and Software Rights," 10 *U. Pa. J. Bus. & Emp. L.* 763 (2008).

<sup>159</sup> *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969, 989-90, 1003 (N.D. Cal. 2006) (employer's computers contained files relating to employees' new, competing venture, source code for their new website, a database of users of the new website, and a bridge loan term sheet for the new venture).

<sup>160</sup> See *Cadence Design Sys., Inc. v. Bhandari*, No. 3:07-cv-00823, 2007 BL 144385 (N.D. Cal. Nov. 8, 2007) (under California Labor Code Section 2870, the term "related to" is construed broadly to cover any invention within the general scope of the employer's business, and is not limited to the division in which the employee worked; the exceptions for inventions that relate to the employer's business or research and development, and work performed for the employer, operate independently; employee's invention of computer-aided techniques for making integrated circuits improved the quality and cost-effectiveness of the employer's products); *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969, 992 (N.D. Cal. 2006) (courts interpreting employee assignment agreements under California Labor Code Section 2870 have construed the "related to" phrase broadly); *Cubic Corp. v. Marty*, 229 Cal. Rptr. 828, 836 (Ct. App. 1986) ("[W]e construe the statutory language [of California Labor Code Section 2870] to cover both the situation where the invention comes within the scope of the employer's business (actual or demonstrably anticipated) and the situation where the invention was not within the usual scope of the employer's business but resulted from the work the employee did for the employer. If either situation is present, then the employer has a right to the invention under an assignment agreement.").

<sup>161</sup> See *Eaton Corp. v. Giere*, 971 F.2d 136, 140 (8th Cir. 1992) (employee's invention applied to snowblowers and riding mowers smaller than the ones fitted with the employer's product; Minnesota statute did not prevent assignment of the employee's invention to the employer because the latter market was an area of actual or demonstrably anticipated research and development; as a result of his work on similar products for the employer, employee saved substantial time and money on research, development, and testing of his invention; employee's work on the invention at home and after work hours was "of little relevance"), *cert. denied*, 506 U.S. 1034 (1992).

subdivision (a), the provision is against the public policy of this state and is unenforceable.<sup>162</sup>

The California,<sup>163</sup> Illinois,<sup>164</sup> Minnesota,<sup>165</sup> and Washington<sup>166</sup> statutes require the employer to provide the employee with written notice of the statutory provision.

The Kansas statute requires the employee to "disclose, at the time of employment or thereafter, all inventions being developed by the employee, for the purposes of determining employer and employee rights in an invention."<sup>167</sup>

## Consideration Necessary for Enforceable Assignments

For an assignment entered into when an employee begins employment, the employment is adequate consideration.<sup>168</sup>

For an assignment entered into after an at-will employee begins employment, continuation of the at-will

<sup>162</sup> California Labor Code Section 2870; *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969, 992 (N.D. Cal. 2006) (assignments of inventions are enforceable in three independent scenarios: (1) the invention was developed using the employer's time or resources; (2) the invention relates to the employer's business or actual or demonstrably anticipated research or development; or (3) the invention resulted from work performed by the employee for the employer).

<sup>163</sup> California Labor Code Section 2872. Section 1.2(m) of the Model Provisions contains the notice required by the California statute.

See generally Andrew Boling & Alexis Hawley, "Strategies for Negotiating, Drafting, and Reviewing Enforceable Employment Agreements," in *Negotiating and Drafting Employment Agreements* 7, 15-16 (Aspatore 2015-2016 ed.) ("[E]mployers may overlook the necessity to address geographical legal idiosyncrasies. For example, a New York company may decide to use its standard New York agreement for employees in California, and in so doing may render its IP assignment clause unenforceable, since California has special rules for describing IP ownership and requires the employer to provide certain warnings to the employee. Alternatively, the New York agreement may include non-compete provisions, which are not enforceable in California, leaving the employer unprotected. Companies must map out where their employees perform services and determine whether their current agreements work, or whether it is necessary to make minor housekeeping adjustments to make them enforceable.").

<sup>164</sup> Illinois 765ILCS1060/2.

<sup>165</sup> Minnesota Statutes 13A Section 181.78(3).

<sup>166</sup> Washington Rev. Code, Title 49 RCW: Labor Regulations, Chapter 49.44.140(3); *Waterjet Tech., Inc. v. Flow Int'l Corp.*, 996 P.2d 598 (Wash. 2000) (en banc) (employer can use the employment agreement to provide the required statutory notice; remedy for inadequate notice is to strike the overreaching portions of the agreement as against public policy; if the notice is inadequate, but the assignment otherwise satisfies the statute's requirements, the assignment is enforceable).

<sup>167</sup> Kansas Statutes Section 44-130(d).

<sup>168</sup> See *Eaton Corp. v. Giere*, 971 F.2d 136, 140 (8th Cir. 1992), *cert. denied*, 506 U.S. 1034 (1992) (Minnesota law); *Conway v. White*, 9 F.2d 863 (2d Cir. 1925) (five year employment term was adequate consideration); *Voith Hydro, Inc. v. Hydro West Group, Inc.*, 1997 WL 154400, at \*5 (N.D. Cal. March 26, 1997) (at-will employment was adequate consideration for an invention assignment) (Pennsylvania law); *Cubic Corp. v. Marty*, 229 Cal. Rptr. 828 (Ct. App. 1986) (invention assignment was a condition of employment; employment was adequate consideration for the assignment).

employment is usually adequate consideration. Since an assignment of intellectual property does not affect an employee's ability to earn a living, the policy of protecting this ability in the cases that require additional consideration for covenants not to compete entered into after an at-will employee began employment is not at issue.<sup>169</sup>

Furthermore, once a contractor or employee receives consideration for the assignment obligation, no further consideration is necessary for the execution of the assignments. In *Berry v. Ford Motor Co.*,<sup>170</sup> a contractor entered into an agreement that provided that every invention made, conceived, or reduced to practice in performing services belonged to Ford without further consideration. The agreement also provided that, upon request, the contractor shall execute all documents and furnish all reasonable assistance required to establish in Ford title to the inventions and enable Ford to apply for United States and foreign patents. When the contractor later became a Ford employee, his employment agreement prospectively assigned all intellectual property made, conceived, or developed by him to Ford without further consideration, and required his cooperation in the execution of patent assignments.

Since the contractor agreement and employment agreement provided that all inventions belonged to Ford without further consideration, and required the contractor and employee to execute the necessary patent assignments, he was obligated to assign all intellectual property to Ford. Accordingly, no additional consideration was necessary for the patent assignments apart from the compensation he received under those agreements.<sup>171</sup>

<sup>169</sup> *MAI Basic Four, Inc. v. Basis, Inc.*, 880 F.2d 286 (10th Cir. 1989) (New Mexico law); *Fish v. Air-O-Fan Products Corp.*, 285 F.2d 208 (9th Cir. 1960); *Hebbard v. Am. Zinc, Lead & Smelting Co.*, 161 F.2d 339, 345 (8th Cir. 1947); *Goodyear Tire & Rubber Co. v. Miller*, 22 F.2d 353, 354-56 (9th Cir. 1927); *General Signal Corp. v. Primary Flow Signal, Inc.*, 1987 WL 147798 (D.R.I. July 27, 1987); *Preston v. Marathon Oil Co.*, 277 P.3d 81 (Wyo. 2012).

*Cf. Harsco Corp. v. Zlotnicki*, 779 F.2d 906 (3d Cir. 1985) (at-will employee entered into a patent assignment after he began employment and conceived of an improvement to an assault bridge; since the employee gave additional consideration with the assignment, the employer had a duty to employ him for a reasonable period of time; this duty was adequate consideration for the assignment) (Pennsylvania law), *cert. denied*, 476 U.S. 1171 (1986).

*But see Mirafi, Inc. v. Murphy*, 14 U.S.P.Q.2d (BNA) 1337, 1350 (W.D.N.C. 1989) (invention assignment made after an at-will employee began employment requires new consideration), *aff'd in part and rev'd in part on other grounds*, 928 F.2d 410 (Fed. Cir. 1991) (unpublished disposition); *Hewett v. Samsonite Corp.*, 507 P.2d 1119, 1121 (Colo. Ct. App. 1973) (continued employment was inadequate consideration for patent assignment; since assignment was unenforceable, employee owned the inventions subject to employer's shop rights).

<sup>170</sup> No. 5:11-cv-10569, 2015 BL 104799, at \*6 (E.D. Mich. Apr. 14, 2015), *aff'd without opinion*, 636 F. App'x 1015 (Fed. Cir. 2016) (Mem).

<sup>171</sup> *See also Shamrock Tech., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 794 (Fed. Cir. 1990) ("Employment, salary and bonuses are valid consideration for the assignment."); *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1225 (Fed. Cir. 1988) (salary and bonuses over many years were valuable consideration), *cert. dismissed*, 487 U.S. 1265 (1988); *KB Int'l, LLC v. Holmes*, No. H-04-2518, 2005 BL 77196, at \*2 (S.D. Tex. July 1, 2005) ("Most importantly, however, Holmes signed the

## Enforceability of Holdover Clauses Under State Law

With respect to the time period covered by an assignment, virtually all jurisdictions uphold clauses that cover inventions conceived, designed, or made during employment.<sup>172</sup>

Assignments often contain a trailer or holdover clause, which requires a former employee to assign inventions to the former employer for a specified period after termination of employment. In the absence of a holdover clause, a former employee does not have an obligation to assign inventions conceived after termination of employment to his or her former employer.<sup>173</sup>

assignments specifically acknowledging that he received 'good and valuable consideration' and that the consideration was sufficient and adequate. He cannot now be heard to question what he has already acknowledged.")

<sup>172</sup> *Patent & Licensing Corp. v. Olsen*, 188 F.2d 522, 525 (2d Cir. 1951); *Paley v. Du Pont Rayon Co.*, 71 F.2d 856, 858 (7th Cir. 1934); *Goodyear Tire & Rubber Co. v. Miller*, 22 F.2d 353, 355 (9th Cir. 1927); *Conway v. White*, 9 F.2d 863, 866 (2d Cir. 1925) ("The contract in this case did not lack consideration, and its plain intent was protection of the business in which the company was engaged. It was not an agreement to assign in gross the defendant's future labors as an inventor, but only the inventions and discoveries made during the term of his employment, and which in any way might affect the articles manufactured by the company, and which were used or capable of being used in the business. There was nothing in the agreement which was unreasonable, or which rendered it invalid or unconscionable.")

*Bandag, Inc. v. Morenings*, 146 N.W.2d 916 (Iowa 1966); *Misani v. Ortho Pharm. Corp.*, 210 A.2d 609 (N.J. 1965), *cert. denied and appeal dismissed*, 382 U.S. 203 (1965); *Cahill v. Regan*, 157 N.E.2d 505 (N.Y. 1959).

<sup>173</sup> *See Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205 (1st Cir. 1971) (employment contract provided that employee assigned "all inventions or improvements which he may make while in the employ of Rockwood;" since employee did not conceive of invention until after he resigned, employer was not entitled to assignment of the invention and did not have a shop right); *New Jersey Zinc Co. v. Singmaster*, 71 F.2d 277, 279-80 (2d Cir. 1934) (employment contract provided, "All patentable ideas and devices originating with, or developed by, an employee of this Company, while in the employ of the Company, shall belong to the Company, and shall be formally assigned to the Company by the patentee;" when the employee neither conceived nor reduced to practice improvements during his employment, the employee did not have any obligation to assign patents for the improvements to the employer; "An employee is not forbidden, after leaving the services of his employer, from giving expression to inventive thoughts and ideas and indeed making improvements upon basic patents which have become the property of his former employer. Exercise of talents resulting in invention after termination of the employer-employee relationship entitles the employee to a grant of a patent and patent protection")

*SinoMab Bioscience Ltd. v. Immunomedics, Inc.*, No. 2471, 2009 BL 132773, at \*14 (Del. Ch. June 16, 2009) (Strine, V.C.) (under Assignment and Confidentiality Agreement, employee assigned "all ideas, inventions, discoveries, and improvements (whether or not patentable or subject to copyright protection) which I make, originate, conceive, or reduce to practice during my employment with [Immunomedics];" employee did not have an obligation to assign an idea conceived of after termination of employment); *Dow Chem. Co. v. Am. Bromine Co.*, 177 N.W. 996 (Mich. 1920) (employment agreement required employee to assign all patents relating to bromine production; former employee did not have any obligation to assign invention conceived and patented after termination of employment).

The policy rationale for enforcing holdover clauses is that “employees sometimes carry with them to new employers inventions or ideas so related to work done for a former employer that in equity and good conscience the fruits of that work should belong to the former employer.”<sup>174</sup> On a visceral level, holdover clauses protect employers against the untoward situation of an employee who resigns but has not disclosed an invention conceived during employment, and then further develops the invention and obtains a patent on it.<sup>175</sup>

Since a holdover clause does not on its face restrict an employee’s ability to earn a living apart from the covered inventions,<sup>176</sup> a number of jurisdictions do not

See also *Hopedale Mach. Co. v. Entwistle*, 133 Mass. 443, 444 (1882) (employment agreement that granted the employer rights to the employee’s invention developed during employment did not apply after the agreement expired regardless of whether portions of the invention were developed before expiration); *White’s Elecs., Inc. v. Teknetics, Inc.*, 677 P.2d 68 (Or. Ct. App. 1984) (electrical engineer hired to invent new metal detector technology and whose idea for target-identification did not crystallize into a definite form of invention until after termination of employment did not have an obligation to assign invention to his employer).

<sup>174</sup> *Dorr-Oliver, Inc. v. United States*, 432 F.2d 447, 452 (Cl. Ct. 1970); see also Orly Lobel, *Talent Wants to be Free* 147 (Yale U. Press 2013) (“Economists fear that granting employees too much freedom to leave their employer and independently engage in inventions based on what they’ve learned would lower a company’s investments in human capital. Conversely, we intuitively understand that permitting overly restrictive holdover clauses will stifle competition and prevent talented inventors from fully practicing their trade and developing their ideas, thus harming the interests of the general public. The bottom line of the dilemma is, you can tell opposite stories in which important ideas are never born because of either too much control or too much freedom.”).

<sup>175</sup> See *White’s Electronics, Inc. v. Teknetics, Inc.*, 677 P.2d 68, 72 (Or. Ct. App. 1984) (electrical engineer hired to invent new metal detector technology and whose idea for target-identification did not crystallize into a definite form of invention until after termination of employment did not have an obligation to assign invention to his employer; “White’s argues that such a holding will encourage employed inventors deliberately to refrain from putting ideas into tangible form in order to circumvent employer’s rights. Our response is that employers could protect themselves by requiring inventors to enter into contracts that provide that the employer is entitled to any inventions conceived during the term of employment and during a reasonable period of time after termination. In fact, White’s required Payne to sign such an agreement during his first period of employment. Its failure to obtain such an agreement the second time around is fatal to its case”); Restatement of Employment Law § 8.11 cmt. d (2016) (holdover clauses “allow employers to limit the ability of inventive employees to quit immediately after creating a valuable invention and falsely claim to have created the invention after the relationship ended. Such clauses must be reasonably limited in duration and scope to allow research-and-development employees to remain mobile”).

<sup>176</sup> *Univ. Winding Co. v. Clarke*, 108 F. Supp. 329 (D. Conn. 1952); *Milliken & Co. v. Morin*, 731 S.E.2d 288 (S.C. 2012).

The concept that a holdover clause does not unduly restrict an employee’s ability to earn a living may be divorced from the compelling reality of the unwillingness of employers to hire employees subject to a holdover clause. See Marc B. Herschovitz, “Unhitching the Trailer Clause: The Rights of Inventive Employees and Their Employers,” 3 *J. Intell. Prop. L.* 187, 198-99 (1995) (“While a trailer clause does not prohibit an inventive employee from working for a competitor, business competitors do not desire to hire individuals obligated under

strictly construe it in favor of the employee.<sup>177</sup> Rather, the test for enforceability is the three-prong reasonableness test traditionally applied in the restrictive covenant context. The test is whether the clause: (1) protects a legitimate business interest of the employer, and is not greater than necessary to protect this interest; (2) does not unduly restrict the employee’s ability to earn a living;<sup>178</sup> and (3) does not adversely affect the public interest.<sup>179</sup>

such a clause because the work product of such employees may not accrue to the new employer’s benefit. At best, employers that hire inventive employees obligated under such agreements will underutilize the employees’ inventive skills so as not to develop conflicts with prior trailer clauses. This underutilization of a burdened inventive employee’s creative capacity may concomitantly diminish his rate of compensation. At worst, the inventive employee is unemployed. In today’s society, where technology is advancing at breakneck speed, underutilization or nonutilization of inventive skill may cause an inventive employee’s creative capabilities and talent to atrophy.”).

<sup>177</sup> See, e.g., *NovelAire Techs., LLC v. Harrison*, 50 So. 3d 913, 919 (La. Ct. App. 2010); *Ingersoll-Rand Co. v. Ciavatta*, 542 A.2d 879, 892 (N.J. 1987) (the employer’s interest will generally weigh more heavily than the employee’s when the employer’s trade secrets and confidential information are at stake); *Milliken & Co. v. Morin*, 731 S.E.2d 288 (S.C. 2012).

<sup>178</sup> *Ingersoll-Rand Co. v. Ciavatta*, 542 A.2d 879, 894 (N.J. 1987) (under a holdover clause an employee is at risk of losing the ability to pursue his or her research expertise).

<sup>179</sup> *Dorr-Oliver, Inc. v. United States*, 432 F.2d 447, 452 (Cl. Ct. 1970); *Campbell Soup Co. v. ConAgra, Inc.*, 801 F. Supp. 1298, 1306 (D.N.J. 1991); *GTI Corp. v. Calhoon*, 309 F. Supp. 762, 767-69 (S.D. Ohio 1969); *Univ. Winding Co. v. Clarke*, 108 F. Supp. 329, 332 (D. Conn. 1952); *Revere Transducers, Inc. v. Deere & Co.*, 595 N.W.2d 751, 761-62 (Iowa 1999); *Ingersoll-Rand Co. v. Ciavatta*, 542 A.2d 879, 892 (N.J. 1987) (court declined to enforce a holdover clause for assignment of a patent on a friction stabilizer that the former employee conceived of after termination of employment; the employee was not hired to invent or work on design improvements of a split set friction stabilizer, and did not work in the research and development department; all the specifications and capabilities of the employer’s split set stabilizer were widely publicized in the industry and trade publications; the general design of the friction stabilizer of the employer’s leading competitor was identical to the general design of the employer’s product; the former employee was involuntarily terminated without cause, and his departure and subsequent invention showed that he did not purposefully leave to develop a competing product on the basis of the knowledge he gained from his employment; the former employee conceived of his invention post-termination while installing a light fixture at his home; “While Ciavatta employed certain skills and knowledge he undoubtedly gained during his employment by Ingersoll-Rand, his invention was not the result of any research currently being done by the company or any company research in which he was personally involved. Indeed, the technology Ciavatta employed was developed over fifty years ago and well known in the industry. Nor did he use any of Ingersoll-Rand’s capital or materials in the development of his invention”); *Milliken & Co. v. Morin*, 731 S.E.2d 288 (S.C. 2012).

Cf. Peter Caldwell, “Employment Agreements for the Inventing Worker: A Proposal for Reforming Trailer Clause Enforceability Guidelines,” 13 *J. Intell. Prop. L.* 279, 298-99, 302 (2006) (“[A] trailer clause serves simultaneously as an invention assignment and as a nondisclosure restriction. That is to say, an invention assignment provision cannot be divorced from the confidential information underlying the invention itself. Inventing in violation of a trailer clause is more analogous to the expropriation of confidential information than setting up a business to compete with one’s employer. This analogy sup-

The legitimate business interests that a holdover clause can protect are the employer's trade secrets and

ports our rationale that the best test of trailer clause enforceability should resemble that used for confidential information/trade secret enforceability (rather than the less relevant non-competition test);" accordingly, the clause's duration and geographic scope are largely irrelevant, and enforceability should turn on the reasonableness of the clause's subject matter; "A properly drafted future inventions covenant would be limited to the type of product the employee was expected to work on when hired. It should be phrased as specifically and narrowly as possible to avoid overbreadth and, consequently, a finding of voidness") (footnotes omitted).

For expressions of judicial exasperation with the unpredictability of results under the reasonableness test in the restrictive covenant context, see *Instant Tech. LLC v. DeFazio*, 793 F.3d 748, 751 (7th Cir. 2015) (Easterbrook, J.) (under Illinois law, the existence of a legitimate business interest turns on the totality of the circumstances of each case; "Making validity turn on 'the totality of the circumstances' – which can't be determined until litigation years after the events – makes it hard to predict which covenants are enforceable. If employers can't predict which covenants courts will enforce, they will not make investments that may depend on covenants' validity, and they will not pay employees higher wages for agreeing to bear potentially costly terms. Both employers and employees may be worse off as a result. Risk-averse employees who hope that their covenants will be unenforceable, but fear that they will be sustained, may linger in jobs they would be happier (and more productive) leaving"); *Arthur Murray Dance Studios of Cleveland, Inc. v. Witter*, 105 N.E.2d 685, 687-88 (Ohio Ct. C. P. 1952) ("No layman could realize the legal complication involved in [the] uncomplicated act [of signing a non-compete]. This is not one of those questions on which the legal researcher cannot find enough to quench his thirst. The contrary, there is so much authority it drowns him. It is a sea – vast and vacillating, overlapping and bewildering. One can fish out of it any kind of strange support for anything, if he lives so long. This deep and unsettled sea pertaining to an employee's covenant not to compete with his employer after termination of employment is really Seven Seas and now that the court has sailed them, perhaps it should record those seas so that the next weary traveler may be saved the terrifying time it takes just to find them.") (court also posed forty-one questions in determining whether a restriction is greater than necessary to protect an employer's legitimate business interest); *Reddy v. Cmty. Health Found. of Man*, 298 S.E.2d 906, 911 (W. Va. 1982) ("Reasonableness, in the context of restrictive covenants, is a term of art, although it is not a term lending itself to crisp, exact definition. Reasonableness, as a juridical term, is generally used to define the limits of acceptability and thus concerns the perimeter and not the structure of the area it is used to describe. This general observation is nowhere more particularly true than with respect to a restrictive covenant. Once a contract falls within the rule of reason, the rule operates only as a conclusive observation and provides no further guidance. A court's manipulation of the terms of an anticompetitive covenant, where none of its provisions standing alone is an inherently unreasonable one, cannot be accomplished with reasonableness as the standard. It is like being in the jungle—you're either in or you're out, and once you're in the distinction is worthless for establishing your exact location.").

See also Orly Lobel, "The New Cognitive Property: Human Capital Law and the Reach of Intellectual Property," 93 *Tex. L. Rev.* 789, 827 (March 2015) ("The reasonableness standard is an open-ended legal term, consisting of a balancing test applied by the courts weighing 'legitimate business interests,' 'employee hardships,' and the 'public interest.' The balancing is generally conducted on a case-by-case basis, without either referencing contemporary data or generalizing beyond the particular facts of each dispute. The court's reasoning in these cases is often conclusory and subjective.") (footnotes omitted).

confidential information.<sup>180</sup> In addition, in *Ingersoll-Rand Co. v. Ciavatta*,<sup>181</sup> the court recognized the interest of an employer in highly specialized, current information not generally known in the industry as a protectible legitimate business interest:

We recognize that employers may have legitimate interests in protecting information that is not a trade secret or proprietary information, but highly specialized, current information not generally known in the industry, created and stimulated by the research environment furnished by the employer, to which the employee has been "exposed" and "enriched" solely due to his employment. We do not attempt to define the exact parameters of that protectible interest.

We expect courts to construe narrowly this interest, which will be deemed part of the "reasonableness" equation. The line between such information, trade secrets, and the general skills and knowledge of a highly sophisticated employee will be very difficult to draw, and the employer will have the burden to do so. Nevertheless, we do not hesitate to recognize what appears to us a business reality that modern day employers are in need of some protection against the use or disclosure of valuable information in the employer's business, which information is passed on to certain employees confidentially by virtue of the positions those employees hold in the employer's enterprise. [citations omitted]<sup>182</sup>

The court also cautioned against drafting holdover clauses that applied to inventions beyond the scope of the employee's employment:

As an aid to employer's drafting future holdover agreements, we emphasize the following language of Paragraph 1(c) that applies the agreement to "inventions, copyrights and/or designs . . . if conceived as a result of and is attributable to work done during such employment and *relates to a method, substance, machine, article of manufacture or improvements therein within the scope of the business of the COMPANY or any of its affiliates.*" (emphasis added). *Ingersoll-Rand* has thirty divisions worldwide, so arguably the clause could apply to activities outside the scope of *Ciavatta's* employment but within the scope of any of those numerous divisions. We caution employers that such language appears to be overly broad, and, hence, would be unenforceable.<sup>183</sup>

<sup>180</sup> *Ingersoll-Rand Co. v. Ciavatta*, 542 A.2d 879, 892-93 (N.J. 1987).

<sup>181</sup> 542 A.2d 879 (N.J. 1987).

<sup>182</sup> *Id.* at 894.

<sup>183</sup> *Id.* at 896 n. 6; see also *Dorr-Oliver, Inc. v. United States*, 432 F.2d 447, 451-52 (Cl. Ct. 1970) (employment agreement contained a one year holdover clause that applied to "the machinery and devices and other products of the various kinds made, used and sold by you [the employer] heretofore or hereafter during my employ;" court held that the clause was enforceable only to the extent that it applied to subject matter to which an employee worked on or had knowledge of during his employment; when former employee had not previously worked on cargo trailers and did not have knowledge of his former employer's activities relating to that product, the cargo trailers were not subject to the holdover clause; in addition, the invention was conceived and reduced to practice while the former employee worked for a subsequent employer and on that employer's time and money); *Amorlite Lens Co. v. Campbell*, 340 F. Supp. 273, 275 (S.D. Cal. 1972) (holdover clause was unenforceable when it required employee to assign all new ideas and concepts regarding the employer's field of work or products for one year after termination of employment regardless of whether the ideas or concepts were based on the employer's trade secrets or confidential information); *GTI Corp. v. Cal-*

In *Applied Materials, Inc. v. Advanced Micro-Fabrication Equipment (Shanghai) Co.*,<sup>184</sup> the court found that a holdover clause in an employment agreement was unenforceable as overbroad. Furthermore, the clause's overbreadth violated the statutory prohibition on restrictive covenants under Section 16600 of the California Business & Professions Code. The assignment provided:

In case any invention is described in a patent application or is disclosed to third parties by me within one (1) year after terminating my employment with APPLIED, it is to be presumed that the invention was conceived or made during the period of my employment for APPLIED, and the invention will be assigned to APPLIED as provided by this Agreement, provided it relates to my work with APPLIED or any of its subsidiaries.

The court found that the clause was overbroad for two reasons. First, the clause was not limited to inventions based on Applied's confidential information. The clause applied not only inventions based on Applied's confidential information, but also inventions relating to former Applied employees' work in the broad field of semiconductor research and manufacturing.

Second, the clause was not limited to the inventions conceived by the employees while employed at Applied, but also covered any invention disclosed by the employ-

ment, 309 F. Supp. 762, 769 (S.D. Ohio 1969) (court formulated the following test to determine whether employees who formed a competing enterprise with their former employer used general knowledge or trade secrets: "First, did the employees derive the necessary knowledge to make their products from their employment with plaintiff or from their general knowledge of the arts of manufacture? Second, could the defendants proceed as they did independently of the knowledge gained as plaintiff's employee? If the answer to these tests is in the affirmative, the former employees relied upon general skill and not upon trade secrets of the former employer"); *Guth v. Minnesota Mining & Mfg. Co.*, 72 F.2d 385, 388-89 (7th Cir. 1934) (holdover clause applied to any business in which the company during the period of employment by the company, or by its predecessor or successor, is or may be concerned; if the employee worked in another laboratory or for another manufacturer, the employee had to assign his discoveries to his former employer; the clause effectively closed the doors of employment in the United States to the employee; the clause conflicted with the public policy "that encourages inventions and discourages the exclusion of an employee from engaging in the gainful occupation for which he is particularly fitted"); *Aspinwall Mfg. Co. v. Gill*, 32 F. 697, 700 (C.C.D.N.J. 1887) (agreement to assign all the products of an employee's future inventive activities was unenforceable).

See generally Orly Lobel, *Talent Wants to be Free* 149 (Yale U. Press 2013) ("Beyond the personal story, Ciavatta's legal win is even more limited in its principled scope when we consider most inventors. The very reasons that led a sympathetic court to draw limits on corporate holdover delimit the scope of such sympathy. The counterfactual scenarios, more realistic for the majority of talented and creative professionals in today's markets, would likely fail in court. Most of the time today, ex-employees had been generally tasked with invention and innovation or had been a part of an R&D team or had quit, perhaps strategically, to pursue their own ideas – all of these factors weigh heavily against inventors attempting to challenge a trailer clause. Ciavatta's victory appears to posit trailer clauses as a small block of ice floating on the ocean's surface. Unfortunately, the reality is that the block is an iceberg, and thousands of inventors beneath the surface never dare to run the legal gauntlet Ciavatta did, preferring instead to let their potentially life-changing inventions gather dust.").

<sup>184</sup> 630 F. Supp. 2d 1084 (N.D. Cal. 2009).

ees regardless of when or where the inventions were conceived. Assignments that required an employee to assign an invention conceived after termination of employment were unenforceable. Since the clause's overbreadth operated as a restriction on employee mobility, the clause was a post-employment penalty that violated the prohibition on restrictive covenants under Section 16600 of the California Business & Professions Code.<sup>185</sup>

Section 1.2(k)(i) of the Model Provisions addresses the overbreadth prohibition by limiting the holdover clause to a Creative Event that arises from or relates to the Employer's Confidential Information or the work that the Employee performed for the Employer or a Related Entity:

The Employee's rights and obligations under this section 1.2 will apply for the items in section 1.2(a)(i)-(v) for which a Creative Event occurs within one year after the date of Separation From Service, and the Creative Event arises from or relates to: (A) Confidential Information; (B) any project that the Employee participated in or supervised for the Employer or any Related Entity; (C) any task that the Employee performed or supervised for the Employer or any Related Entity; (D) a prior Creative Event that occurred on the Employer's or any Related Entity's time in whole or in part; or (E) highly specialized, current information of the Employer or any Related Entity not generally known in the industry that the Employee received during the Employee's Service (the "Holdover Product").

Finally, the duration of a holdover clause must be reasonable.<sup>186</sup> Section 1.2(d) and (k)(i) of the Model Provisions uses one year.

<sup>185</sup> *Edwards v. Arthur Andersen LLP*, 189 P.2d 285 (Cal. 2008) (Section 16600 invalidates provisions in employment agreements that prohibit an employee from working for a competitor after termination of employment, or imposing a penalty if the employee does so unless they are necessary to protect the employer's trade secrets).

<sup>186</sup> Compare *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134, 145 (9th Cir. 1965) (holdover clause was enforceable when it required employees to assign inventions that were conceived within one year after termination of employment and that were based on confidential information) and *Universal Winding Co. v. Clarke*, 108 F. Supp. 329, 338 (D. Conn. 1952) (court upheld holdover clause that required employee to assign an invention that he designed within one year after termination of employment and that was related to any subject matter of his employment) (Rhode Island law) and *Murray v. A.F. Holden*, 12 Conn. Supp. 419, 422 (Super. Ct. 1944) (two year holdover clause was reasonable) and *Milliken & Co. v. Morin*, 731 S.E.2d 288, 295 (S.C. 2012) (a one year holdover clause "is eminently reasonable") with *Guth v. Minnesota Mining & Mfg. Co.*, 72 F.2d 385, 388 (7th Cir. 1934) (preinvention assignment provisions of employment agreement that were unlimited in time and subject matter were void as against public policy) and *Freedom Wireless, Inc. v. Boston Comm'n Grp., Inc.*, 220 F. Supp. 2d 16, 18 (D. Mass. 2002) ("When [invention-assignment] contracts are open-ended with respect to time limit or subject matter, they may be considered unenforceable.") and *Federal Screw Works v. Interface Systems, Inc.*, 569 F. Supp. 1562, 1564 (E.D. Mich. 1983) ("The agreements in question are for an indefinite period of time. One employee worked for Interface for one year and the other for only a few months. It is now ten years later and Interface seeks to enforce termination agreements against these former employees which would require them to turn over all inventions for an indefinite period of time covering subjects both within the Company's field of activity or 'contemplated field of activity.' It is hard to imagine a more restrictive or overbroad agreement. It would be reasonable to restrict these ex-employees from using information gathered at Interface. It is

## APPENDIX

## Model Confidentiality and Intellectual Property Provisions

[CAVEAT: IF SECTION 1.1 IS USED FOR NON-MANAGERIAL EMPLOYEES COVERED BY THE CONCERTED ACTIVITY PROTECTIONS OF THE NATIONAL LABOR RELATIONS ACT, COUNSEL SHOULD DETERMINE WHETHER THESE PROTECTIONS PROHIBIT OR LIMIT ANY OF THE PROVISIONS OF SECTION 1.1.]

1.1 **Confidential Information.** (a) For purposes of this agreement, “**Confidential Information**” means any information described in section 1.1(b) and (c) that satisfies the requirements of section 1.1(d), and is not excluded under section 1.1(e).

(b) Information in this section 1.1(b) means one or more of the following with respect to the Employer and its Related Entities: (i) acquisition, divestiture, and merger prospects, overtures, proposals, negotiations, and due diligence; (ii) adverse events from pharmaceutical products; (iii) agreements, practices, and policies for current and former employees, leased employees, contract workers, and independent contractors; (iv) borrowing arrangements; (v) budgets and business plans; (vi) clinical trial plans, data, and results; (vii) compensation, qualifications, and experience of current and former employees, leased employees, contract workers, and independent contractors; (viii) computer systems; (ix) credit policies, and payment and transaction histories, of customers and vendors; (x) customer contracts; (xi) customer lists; (xii) customer operations and requirements; (xiii) financial information, forecasts, and projections; (xiv) identities, telephone numbers, and e-mail and other addresses of customers and vendors, and the identities, telephone numbers, and e-mail and other addresses of the customers’ and vendors’ employees and agents with whom the Employer’s or a Related Entity’s employees and agents communicate in the ordinary course of business; (xv) information that the Employer or a Related Entity receives from customers, vendors, and other Persons that do business or seek to do business with the Employer or a Related

not reasonable to confiscate all new inventions made by the employees for which Interface might have an interest.”) (Michigan law) and *GTI Corp. v. Calhoon*, 309 F. Supp. 762, 773 (S.D. Ohio 1969) (five year holdover clause was unenforceable) and *United Shoe Machinery Co. v. La Chapelle*, 99 N.E. 289, 293 (Mass. 1912) (ten year holdover clause was unenforceable).

But see Peter Caldwell, “Employment Agreements for the Inventing Worker: A Proposal for Reforming Trailer Clause Enforceability Guidelines,” 13 *J. Intell. Prop. L.* 279, 295-96 (2006) (“[W]hile time is useful in noncompetition analysis, it is a misplaced variable when applied to inventions. Time is only relevant to inventions if a patent has been assigned to an employer and will expire on a particular date. If no patent has been issued on the employee’s invention or the invention does not yet exist at termination, time is not a relevant concern. This is because the assignment of an existing or future invention is generally a thing of permanence. Employers would not bother to seek invention assignments if they could be declared void within a reasonable time after termination. Thus, because time has no place in the legal analysis of invention assignments, it follows that an assignment of future inventions, even permanent, should be deemed reasonable . . .”).

Entity, and that the Employer or Related Entity has an obligation under contract or Law to treat as confidential or proprietary, or otherwise treats as confidential or proprietary; (xvi) joint venture members and partners; (xvii) labor relations policies and strategies; (xviii) laboratory notebooks; (xix) prior, current, and proposed leases; (xx) prior, current, and proposed licensing agreements; (xxi) maintenance and repair processes, schedules, and breakdowns; (xxii) manufacturing processes, schedules, sequences, and breakdowns; (xxiii) marketing and advertising proposals and plans; (xxiv) names, telephone numbers, and e-mail, home, and other addresses of the Employer’s and its Related Entities’ current and former employees, leased employees, contract workers, and independent contractors; (xxv) object code; (xxvi) outcomes research; (xxvii) performance standards; (xxviii) pricing methods and policies, and sales margins; (xxix) prior, pending, anticipated, and threatened audits, examinations, and investigations by Government Bodies and self-regulatory organizations, and the Employer’s and its Related Entities’ proposed and actual responses; (xxx) prior, pending, anticipated, and threatened claims and litigation, and the Employer’s and its Related Entities’ proposed and actual responses; (xxxi) product and material costs; (xxxii) production processes, schedules, sequences, and breakdowns; (xxxiii) proprietary assays; (xxxiv) public information that becomes proprietary as a result of the Employer’s or a Related Entity’s compilation; (xxxv) research and development; (xxxvi) research collaborators; (xxxvii) risk management; (xxxviii) sales strategies, prospects, forecasts, and projections; (xxxix) software whether proprietary to the Employer or a Related Entity, or used under a license from a third-party; (xl) source code; (xli) tax returns; (xlii) trade secrets as defined under Red State common law and statutes; (xliii) vendor contracts; (xliv) vendor lists; (xlv) Work Product; and (xlvi) any combination of the items in (i) to (xlv).

(c) Confidential Information also includes information as to when and how the Employee received the Confidential Information.

(d) The Confidential Information must: (i) have actual or potential economic value to the Employer or a Related Entity from not being generally known to, or not being readily ascertainable through proper means, by: (A) the public; or (B) Persons that can obtain actual or potential economic value from its disclosure or use; and (ii) arise from or relate to: (A) [Alternative 1: any business or reasonably anticipated business of the Employer, any Related Entity, or any customer or vendor of the Employer or any Related Entity;] [Alternative 2: any business of the Employer, any Related Entity, or any customer or vendor of the Employer or any Related Entity;] or (B) [Alternative 1: any prior, current, or reasonably anticipated research or development of the Employer or any Related Entity.] [Alternative 2: any current or reasonably anticipated research or development of the Employer or any Related Entity.] [Alternative 3: any actual or demonstrably anticipated research or development of the Employer or any Related Entity.]

(e) Confidential Information does not include information that:

(i) is or becomes publicly known or widely available in any industry in which the Employer or a Re-

lated Entity does business other than due to the conduct of: (A) the Employee in violation of this agreement; (B) any Employee Person that would be a violation of this agreement had the Employee engaged in the same conduct; (C) any member of the Employee's Immediate Family, or a Family Entity, that would be a violation of this agreement had the Employee engaged in the same conduct; or (D) any Person acting on the Employee's behalf that would be a violation of this agreement had the Employee engaged in the same conduct;

(ii) was in the Employee's possession before the Employee commenced employment or anticipated employment, and was not: (A) assigned to the Employer or a Related Entity; or (B) disclosed to the Employee as a director or other fiduciary of the Employer or a Related Entity;

(iii) [Alternative 1: was in the Employee's possession before the Employer's or Related Entity's disclosure to the Employee, and the Employee was unaware, or would have been unaware after reasonable inquiry, that the information's source was bound by a confidentiality obligation under contract or Law; or] [Alternative 2: was in the Employee's possession before the Employer's or Related Entity's disclosure to the Employee, and the information's source was not bound by a confidentiality obligation under contract or Law; or]

(iv) [Alternative 1: becomes available to the Employee from a third-party, and the Employee was unaware, or would have been unaware after reasonable inquiry, that the third-party was bound by a confidentiality obligation under contract or Law.] [Alternative 2: becomes available to the Employee from a third-party that was not bound by a confidentiality obligation under contract or Law.]

(f) Except as necessary to perform the Employee's Service, the Employee shall not: (i) use, or cause or permit to be used, Confidential Information for the Employee's personal benefit, or the benefit of a member of the Employee's Immediate Family, a Family Entity, or any Person that engages in a Rival Business; (ii) disclose, or cause or permit to be disclosed, any Confidential Information, or take any other action likely to result in the disclosure of Confidential Information; (iii) make accessible, or cause or permit to be made accessible, any Confidential Information; (iv) solicit, encourage, or induce, or cause or permit to be solicited, encouraged, or induced, any third-party request or demand for disclosure of Confidential Information; (v) copy or transmit, or cause or permit to be copied or transmitted, any Confidential Information in any medium; or (vi) remove, or cause or permit to be removed, any Confidential Information or copies thereof in any medium from the Employer's Equipment or the Employer's or any Related Entity's facilities or offices.

(g) The Employer and its Related Entities may enter into confidentiality or nondisclosure agreements with customers, vendors, and other Persons that do business or seek to do business with the Employer or its Related Entities (the "**Third-Party Agreements**"). The Employer or Related Entity in its exclusive discretion may covenant in the Third-Party Agreements that its employees will not disclose the confidential information of these customers, vendors, and other Persons. By entering into this agreement, the Employee acknowledges

that the Employer and its Related Entities can rely on this agreement when entering into the Third-Party Agreements.

(h) Section 1.1(f)-(g) does not apply to the disclosure of Confidential Information:

(i) in filings with the SEC and available through public disclosure from the SEC;

(ii) requested or demanded by a court, single arbitrator or panel of arbitrators, Government Body, self-regulatory organization, or stock exchange (a "**Requesting Entity**") when the Requesting Entity has supervisory authority over any business or securities of the Employer or a Related Entity, or actual or apparent jurisdiction to order the Employee to disclose Confidential Information. Subject to section 1.1(j)-(l), the Employee shall notify the Employer's General Counsel of the request or demand promptly upon the Employee's receipt, and shall reasonably cooperate with the Employer or Related Entity at its expense in challenging the request or demand, or in seeking a protective order, confidential treatment, or other relief to prevent or limit the disclosure;

(iii) that on the advice of the Employee's counsel the Employee must disclose under Law. Subject to section 1.1(j)-(l), the Employee shall notify the Employer's General Counsel of the intended disclosure within a reasonable time before the intended disclosure. The Employee shall also reasonably cooperate with the Employer or Related Entity at its expense in seeking a protective order, confidential treatment, or other relief to prevent or limit the disclosure;

(iv) with respect to any rights or obligations arising from or related this agreement, any plan, policy, or program referred to in this agreement, or the Employee's Service, for disclosure that is necessary for the Employee to: (A) defend against any claim brought against the Employee; or (B) enforce any rights or recover any damages. The disclosure must occur in the proceedings to defend, to enforce rights, or to recover damages;

(v) to prospective employers and contractors to the extent necessary to inform them of the restrictions on the Employee's ability to perform services, and of the value of each component of the Employee's compensation; and

(vi) to the Employee's spouse, domestic partner, attorney, and personal financial and tax advisors for purposes of the Employee's financial, tax, and personal planning and compliance with Law (an "**Employee Person**"). The Employee shall provide each Employee Person with a copy of this Article 1 and the first page and signed signature pages of this agreement. [Alternative 1: If an Employee Person's use or disclosure of Confidential Information would be prohibited by this section 1.1 had the Employee engaged in the same conduct, the Employee Person's use or disclosure will be deemed to be a breach by the Employee of this section 1.1. The Employee will be liable to the Employer and its Related Entities to the same extent as if the Employee had engaged in the same conduct as the Employee Person and breached this section 1.1.] [Alternative 2: If an Employee Person's use or disclosure of Confidential Information would be prohibited by this section 1.1 had the Employee engaged in the same conduct, the Employee shall indemnify and hold harmless the

Employer and its Related Entities against the assessments, costs, damages, expenses, fines, judgments, liabilities, losses, penalties, and reasonable hourly attorneys' and paralegals' fees and disbursements arising from or related to the Employee Person's use or disclosure. The Employee's indemnification obligation is subject to the same defenses that the Employee could assert in an action for breach of contract had the Employee engaged in the same conduct as the Employee Person and breached this section 1.1.]

(i) Before the Employee enters into any relationship under section 1.3 with a Rival Business while the Employee is bound by any obligation under this Article 1, the Employee shall provide a copy of Article 1 and the first page and signed signature pages of this agreement to the other party or parties to the relationship. No later than ten days after the date that the Employee enters into the relationship, the Employee shall give the Employer written notice of the names and addresses of the parties or parties to the relationship, the date that the Employee entered into the relationship, the date on which the Employee provided the copy, and the names and addresses of the party or parties to whom the Employee provided the copy.

(j) Notwithstanding any other provision of this agreement, the Employee may: (i) report possible violations of Law to any Government Body, including without limitation the Inspector General of any federal agency, Congress, Department of Justice, and Securities and Exchange Commission; (ii) file any charge or complaint with any Government Body, including without limitation the Equal Employment Opportunity Commission, National Labor Relations Board, Occupational Safety and Health Administration, and Securities and Exchange Commission; (iii) communicate with any Government Body or otherwise participate in any investigation or proceeding conducted by a Government Body; (iv) make disclosures that are protected under the whistleblower provisions of any Law; and (v) receive an award for information provided to any Government Body. The Employee does not have any obligation to: (vi) obtain the prior permission of the Employer or any Related Entity to take any of the actions under clauses (i) to (v); or (vii) notify the Employer or any Related Entity that the Employee has taken any of the actions under clauses (i) to (v).

(k) In accordance with the Defend Trade Secrets Act of 2016, the Employee will not be held criminally or civilly liable under any federal or state trade secret law for disclosure of a trade secret that is made: (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of Law; or (ii) in a complaint or other document filed in a lawsuit or other proceeding, if the filing is made under seal.

(l) In accordance with the Defend Trade Secrets Act of 2016, if the Employee files a lawsuit for retaliation by the Employer for reporting a suspected violation of Law, the Employee may disclose a trade secret to the Employee's attorney and use the trade secret information in the court proceeding as long as the Employee: (i) files any document containing the trade secret under seal; and (ii) does not disclose the trade secret except pursuant to court order.

(m) The Employee shall use reasonable care to protect the confidentiality of Confidential Information, including without limitation protection against espionage, loss, misuse, and theft.

(n) The Employee shall use the Employer's Equipment exclusively to perform the Employee's Service. The Employer and its Related Entities in their exclusive discretion and without notice to the Employee may monitor the Employee's e-mail messages, voice messages, and use of the Internet on the Employer's Equipment. The Employee acknowledges that the Employee does not have any expectation of privacy in any communications and data on the Employer's Equipment, or generated by the Employer's Equipment.

(o) The Employee shall use any Confidential Information on the Employee's Equipment exclusively to perform the Employee's Service.

(p) The Employee shall promptly disclose to the Employer the Employee's use of social media sites. The Employee hereby grants the Employer and its Related Entities access to the social media sites used by the Employee to determine whether the Employee has complied with the Employee's obligations under this agreement, the plans, policies, and programs referred to in this agreement, and Law. In furtherance and not in limitation of the foregoing grant of access, and at the Employer's or any Related Entity's request, the Employee shall provide the Employer or the Related Entity the Employee's user names, passwords, and other means of access to any social media site. [COUNSEL SHOULD DETERMINE WHETHER ANY STATE PRIVACY STATUTES PROHIBIT OR LIMIT ANY OF THE PROVISIONS OF SECTION 1.1(p)]

(q) At the Employer's or any Related Entity's request, the Employee shall: (i) remove any linkage on any social media site to any website of the Employer or any Related Entity; (ii) remove any mention of the Employee's Service on any social media site; and (iii) select the privacy settings on the Employer's Equipment, the Employee's Equipment, or any social media site that prevent public users from browsing or otherwise viewing the Employee's contacts arising from or related to the Employee's Service. [COUNSEL SHOULD DETERMINE WHETHER ANY STATE PRIVACY STATUTES PROHIBIT OR LIMIT ANY OF THE PROVISIONS OF SECTION 1.1(q)]

(r) Confidential Information created, received, or used by the Employee is the exclusive property, and is subject to the exclusive control, of the Employer or a Related Entity. On Separation From Service, and at any earlier time or times when requested by the Board or the board of directors or other governing body of a Related Entity, the Employee shall promptly deliver to the Employer or Related Entity the Confidential Information in the Employee's possession or control (the request, a "**Confidential Information Request**"). In satisfying a Confidential Information Request, the Employee shall not retain any Confidential Information or copies thereof in any medium on the Employee's Equipment. The Employee may retain: (i) the portions of the Employee's personal calendars, correspondence, diaries, equipment, notes, and rolodexes that do not contain Confidential Information; (ii) information and documents regarding the Employee's compensation and re-

imbursement of expenses; and (iii) originals and copies of the agreements, plans, policies, and programs regarding the Employee's Service and Separation From Service. At the Employer's or a Related Entity's request, the Employee shall advise in writing whether the Employee has satisfied a Confidential Information Request.

(s) The Employee shall not: (i) disclose to the Employer and its Related Entities any confidential information, intellectual property, and trade secrets protected under contract or Law or contract from disclosure to the Employer and its Related Entities (the "**Prior Confidential Information**"); (ii) use Prior Confidential Information in the Employee's Service; (iii) bring Prior Confidential Information into any facility or office of the Employer and its Related Entities; or (iv) place Prior Confidential Information on the Employer's Equipment. The Employer and its Related Entities shall not seek to elicit from the Employee any Prior Confidential Information, or solicit, encourage, or induce any other Person to seek to elicit from the Employee any Prior Confidential Information. The provisions of this section 1.1(s) do not apply to the extent that the Employer or a Related Entity has a valid license or other written permission from the owner of the Prior Confidential Information to use the Prior Confidential Information, and the Employer's or Related Entity's use is consistent with the license or other written permission.

(t) The Employee represents that the Employee has timely returned all confidential information, intellectual property, and other property of all prior employers for which the Employee had an obligation to return under contract or Law.

(u) The rights and obligations of section 1.1 with respect to trade secrets will apply indefinitely after the date of Separation From Service. The rights and obligations of section 1.1 other than with respect to trade secrets will apply for [number of years] after the date of Separation From Service.

**1.2 Work Product.** (a) For purposes of this agreement, "**Work Product**" means the items in clauses (i), (ii), (iii), and (iv), and that satisfy the requirements of clauses (v) and (vi):

(i) (A) algorithms; (B) analytical models; (C) apparatus; (D) applications; (E) architectures; (F) compilations; (G) compositions; (H) compounds; (I) concepts; (J) configurations; (K) data and databases; (L) designs; (M) developments; (N) discoveries; (O) domain names; (P) drawings; (Q) e-commerce products and services; (R) formats; (S) formulas; (T) ideas; (U) improvements; (V) innovations; (W) Internet products and services; (X) inventions; (Y) know-how; (Z) laboratory notebooks; (AA) mask works; (BB) methods; (CC) models; (DD) object code; (EE) operations; (FF) patterns; (GG) processes; (HH) products; (II) programs; (JJ) proposals; (KK) proposed copyrights and applications therefor; (LL) proposed domain names and applications therefor; (MM) proposed patents and applications therefor; (NN) proposed service marks and applications therefor; (OO) proposed trademarks and applications therefor; (PP) proposed URLs and applications therefor; (QQ) protocols; (RR) research; (SS) schematics; (TT) software; (UU) source code; (VV) systems; (WW) techniques; (XX) technologies; (YY) trade dress; (ZZ) trade secrets as defined under Red

State common law and statutes; (AAA) URLs; (BBB) uses; (CCC) works of authorship; and (DDD) any combination of the items in (A) to (CCC).

(ii) documents and information arising from or related to the items in clause (i); and

(iii) copies of the items in clauses (i) and (ii) in any medium.

(iv) The items in clauses (i), (ii), and (iii) come within this section 1.2(a) without regard to whether they are registrable under copyright, patent, service mark, or trademark statutes, and without regard to whether they are entitled to trade secret or other form of protection.

(v) The items in clauses (i)-(iv) are: (A) conceived, created, developed, made, reduced to practice, or acquired by the Employee alone, under the Employee's direction, or by the Employee jointly or in common with others; or (B) caused to be conceived, created, developed, made, reduced to practice, or acquired by the Employee alone, under the Employee's direction, or by the Employee jointly or in common with others (each of the conception, creation, development, making, reduction to practice, or acquisition under clause (A) or (B), a "**Creative Event**").

(vi) A Creative Event for the items in clauses (i)-(v) arises from or relates to the Employer or any Related Entity under section 1.2(b).

(b) A Creative Event for the items in section 1.2(a)(i)-(v) arises from or relates to the Employer or any Related Entity if the Creative Event arises from or relates to: (i) the Employer's or any Related Entity's Confidential Information, equipment, facilities, offices, supplies, or other Work Product; (ii) any project that the Employee participates in or supervises for the Employer or any Related Entity; (iii) any task that the Employee performs or supervises for the Employer or any Related Entity; (iv) a Creative Event that occurs on the Employer's or any Related Entity's time; (v) [Alternative 1: any current or reasonably anticipated business of the Employer or any Related Entity;] [Alternative 2: any business of the Employer or any Related Entity;] or (vi) [Alternative 1: any prior, current, or reasonably anticipated research or development of the Employer or any Related Entity.] [Alternative 2: any current or reasonably anticipated research or development of the Employer or any Related Entity.] [Alternative 3: any actual or demonstrably anticipated research or development of the Employer or any Related Entity.] Clauses (i), (ii), (iii), (v), and (vi) of this section 1.2(b) apply without regard to whether the Creative Event occurs on the Employer's or any Related Entity's time, the Employee's time, or any combination thereof.

(c) The Employee shall promptly disclose to the Employer each Creative Event for each item of Work Product that occurs during the Employee's Service.

(d) For each item described in section 1.2(a)(i)-(v), the Employee shall promptly disclose to the Employer: (i) the occurrence of a Creative Event for that item to the extent not already disclosed under section 1.2(c), and a description in reasonable detail of the Creative Event; and (ii) each copyright, patent, service mark, and trademark application made by the Employee. The disclosure obligations under this section 1.2(d) apply when a Creative Event occurs or an application is made during the Employee's Service, and within one year after

the date of Separation From Service. The Employer shall use the Employee's disclosures under section 1.2(c)-(d) to determine whether the item is Work Product or Holdover Product subject to this section 1.2.

(e) The Employee shall maintain written records in reasonable detail of Work Product. The Employer or any Related Entity in its exclusive discretion shall determine whether the records will be in the form of drawings, sketches, notes, or any other form. The records will be available to the Employer and its Related Entities at all times and be the exclusive property of the Employer or its Related Entities.

(f) Work Product that is a work of authorship and comes within the Employee's scope of employment will be a work made for hire by the Employee for the Employer or a Related Entity under the Copyright Act of 1976, as amended, 17 U.S.C. § 101 et seq. (a "**Work Made for Hire**"). The Employer or Related Entity will be the author of the Work Made for Hire and owner of the copyright. For purposes of this agreement, the scope of the Employee's employment means: (i) the positions and duties described in [section of employment agreement that describes the Employee's positions and duties]; (ii) the positions and duties that the Employee performs after the Effective Date for the Employer or any Related Entity and are not otherwise described in [section of employment agreement that describes the Employee's positions and duties]. The positions and duties come within this clause (ii) regardless of whether they are similar to or different from the positions and duties described in [section of employment agreement that describes the Employee's positions and duties]; (iii) any project that the Employee participates in or supervises for the Employer or any Related Entity and without regard to whether the project comes within clause (i) or (ii); or (iv) any task that the Employee performs or supervises for the Employer or any Related Entity and without regard to whether the task comes within clause (i) or (ii).

(g) If Work Product is not a Work Made for Hire, the Employee hereby assigns to the Employer in perpetuity, throughout the world, and in all languages: (i) the Employee's entire interest in Work Product; (ii) the right to sue for causes of action regarding Work Product; and (iii) in furtherance and not in limitation of the assignments under clauses (i) and (ii), the related: (A) copyrights and copyright applications; (B) patents and patent applications; (C) service marks and service mark applications; (D) trademarks and trademark applications; and (E) any other applications for registration of a proprietary right. The foregoing present assignment applies to expectant interests in the items in clauses (i) to (iii), and, subject to section 1.2(l), the items in clauses (i) to (iii) in existence on the Effective Date. To the extent that a present assignment of expectant interests in any item in clauses (i) to (iii) is not effective in any jurisdiction, the Employee shall assign that item to the Employer in perpetuity, throughout the world, and in all languages for that jurisdiction. To the extent that an assignment in perpetuity of any item in clauses (i) to (iii) is not effective in any jurisdiction, any present assignment applies and any obligation to assign in the future will apply for the maximum duration in that jurisdiction.

(h) The Employee acknowledges that new rights to Work Product may come into being or be recognized in

the future (the "**New Exploitation Rights**"). The Employee hereby assigns to the Employer in perpetuity, throughout the world, and in all languages the New Exploitation Rights. The foregoing present assignment applies to expectant interests in New Exploitation Rights. To the extent that a present assignment of expectant interests in any New Exploitation Right is not effective in any jurisdiction, the Employee shall assign that New Exploitation Right to the Employer in perpetuity, throughout the world, and in all languages for that jurisdiction. To the extent that an assignment in perpetuity of any New Exploitation Right is not effective in any jurisdiction, any present assignment applies and any obligation to assign in the future will apply for the maximum duration in that jurisdiction. In addition, the Employer and Employee will have the same rights and obligations for New Exploitation Rights that they have for Work Product.

(i) The Employee acknowledges that new or changed: (i) formats; (ii) media; (iii) methods of dissemination, distribution, exhibition, and performance; (iv) modes of transmission; (v) technology; and (vi) uses, are being and will continue to be developed with respect to Work Product (the "**New Exploitation Methods**"). The Employee hereby assigns to the Employer in perpetuity, throughout the world, and in all languages the New Exploitation Methods. The foregoing present assignment applies to expectant interests in New Exploitation Methods. To the extent that a present assignment of expectant interests in any New Exploitation Method is not effective in any jurisdiction, the Employee shall assign that New Exploitation Method to the Employer in perpetuity, throughout the world, and in all languages for that jurisdiction. To the extent that an assignment in perpetuity of any New Exploitation Method is not effective in any jurisdiction, any present assignment applies and any obligation to assign in the future will apply for the maximum duration in that jurisdiction. In addition, the Employer and Employee will have the same rights and obligations for New Exploitation Methods that they have for Work Product.

(j) The Employee's and Employer's rights and obligations under this section 1.2 apply to Work Product for which any Creative Event occurs during the Employee's Service.

(k) The following provisions govern Holdover Product:

(i) The Employee's rights and obligations under this section 1.2 will apply for the items in section 1.2(a)(i)-(v) for which a Creative Event occurs within one year after the date of Separation From Service, and the Creative Event arises from or relates to: (A) Confidential Information; (B) any project that the Employee participated in or supervised for Employer or any Related Entity; (C) any task that the Employee performed or supervised for the Employer or any Related Entity; (D) a prior Creative Event that occurred on the Employer's or any Related Entity's time in whole or in part; or (E) highly specialized, current information of the Employer or any Related Entity not generally known in the industry that the Employee received during the Employee's Service (the "**Holdover Product**").

(ii) The Employer will have the same rights and obligations for Holdover Product that it has for Work Product.

(iii) In furtherance and not in limitation of the Employee's and Employer's rights and obligations under section 1.2(k)(i)-(ii), the Employee hereby assigns to the Employer in perpetuity, throughout the world, and in all languages: (A) the Employee's entire interest in Holdover Product; (B) the right to sue for causes of action regarding Holdover Product; and (C) in furtherance and not in limitation of the assignments under clauses (A) and (B), the related: (I) copyrights and copyright applications; (II) patents and patent applications; (III) service marks and service mark applications; (IV) trademarks and trademark applications; and (V) any other applications for registration of a proprietary right. The foregoing present assignment applies to expectant interests in the items in clauses (A) to (C). To the extent that a present assignment of expectant interests in any item in clauses (A) to (C) is not effective in any jurisdiction, the Employee shall assign that item to the Employer in perpetuity, throughout the world, and in all languages for that jurisdiction. To the extent that an assignment in perpetuity of any item in clauses (A) to (C) is not effective in any jurisdiction, any present assignment applies and any obligation to assign in the future will apply for the maximum duration in that jurisdiction.

(l) [Alternative 1: (l) The Employee represents that Schedule 1.2 of this agreement sets forth all the items in section 1.2(a)(i)-(v): (i) for which a Creative Event occurred before the Effective Date; and (ii) that the Employee has not assigned to any prior employer or other Person, and that are not otherwise owned by any prior employer or other Person (the "**Employee's Intellectual Property**").

(iii) The Employee hereby assigns to the Employer in perpetuity, throughout the world, and in all languages: (A) the Employee's entire interest in the Employee's Intellectual Property; (B) the right to sue for causes of action regarding the Employee's Intellectual Property; and (C) in furtherance and not in limitation of the assignments under clauses (A) and (B), the related: (I) copyrights and copyright applications; (II) patents and patent applications; (III) service marks and service mark applications; (IV) trademarks and trademark applications; and (V) any other applications for registration of a proprietary right. To the extent that an assignment in perpetuity of any item in clauses (A) to (C) is not effective in any jurisdiction, the assignment applies for the maximum duration in that jurisdiction.

(iv) For the Employee's Intellectual Property that the Employee does not disclose in Schedule 1.2 in violation of the representation in section 1.2(l)(i), the Employee will also have the obligations under this section 1.2(l).]

[Alternative 2: (l) The Employee represents that for the items in section 1.2(a)(i)-(v), no Creative Event has occurred before the Effective Date.]

[Alternative 3: (l) The Employee represents that Schedule 1.2 of this agreement sets forth all the items in section 1.2(a)(i)-(v): (i) for which a Creative Event occurred before the Effective Date; and (ii) that the Employee has not assigned to any prior employer or other Person, and that are not otherwise owned by any prior employer or other Person (the "**Employee's Intellectual Property**").

(iii) The Employee shall not incorporate, or permit to be incorporated, the Employee's Intellectual Property into any Work Product without the Employer's written direction. Before the Employee incorporates, or permits to be incorporated, the Employee's Intellectual Property into any Work Product, the Employer and its Related Entities shall not: (A) use the Employee's Intellectual Property; or (B) impair the rights of the Employee to, or the benefits to the Employee of, the Employee's Intellectual Property.

(iv) For the Employee's Intellectual Property that the Employee incorporates, or permits to be incorporated, into Work Product with the Employer's written direction, the Employee hereby grants to the Employer in perpetuity, throughout the world, and in all languages an irrevocable, nonexclusive, royalty-free license to disclose, make, change, use, sell, and otherwise dispose of the Employee's Intellectual Property (the "**License by Employee**"). To the extent that the foregoing present grant of the License by Employee is not effective in any jurisdiction, the Employee shall grant the License by Employee to the Employer in perpetuity, throughout the world, and in all languages for that jurisdiction. To the extent that the grant of the License by Employee in perpetuity is not effective in any jurisdiction, any present assignment applies and any obligation to assign in the future will apply for the maximum duration in that jurisdiction.

(v) For the Employee's Intellectual Property that the Employee incorporates, or permits to be incorporated, into Work Product without the Employer's written direction, the Employee hereby assigns to the Employer in perpetuity, throughout the world, and in all languages: (A) the Employee's entire interest in the Employee's Intellectual Property; (B) the right to sue for causes of action regarding the Employee's Intellectual Property; and (C) in furtherance and not in limitation of the assignments under clauses (A) and (B), the related (I) copyrights and copyright applications; (II) patents and patent applications; (III) service marks and service mark applications; (IV) trademarks and trademark applications; and (V) any other applications for registration of a proprietary right. To the extent that a present assignment of expectant interests in any item in clauses (A) to (C) is not effective in any jurisdiction, the Employee shall assign that item to the Employer in perpetuity, throughout the world, and in all languages for that jurisdiction. To the extent that an assignment in perpetuity of any item in clauses (A) to (C) is not effective in any jurisdiction, any present assignment applies and any obligation to assign in the future will apply for the maximum duration in that jurisdiction.

(vi) The Employee hereby waives any claim or right to Work Product as the Employee's Intellectual Property if the item is not listed in Schedule 1.2.]

[Alternative 4: (l) The Employee represents that Schedule 1.2 of this agreement sets forth all the items in section 1.2(a)(i)-(v): (i) for which a Creative Event occurred before the Effective Date; and (ii) that the Employee has not assigned to any prior employer or other Person, and that are not otherwise owned by any prior employer or other Person (the "**Employee's Intellectual Property**"). The Employer and its Related Entities will not have any rights to and interests in the Employee's Intellectual Property.

The Employee shall not incorporate, or permit to be incorporated, the Employee's Intellectual Property into any Work Product. The Employee hereby waives any claim or right to Work Product as the Employee's Intellectual Property if the item is not listed in Schedule 1.2.]

(m) To the extent not already provided under this section 1.2, the Employee's present assignments of expectant interests in inventions do not apply, and the Employee's obligations to assign inventions in the future will not apply, to any invention that the Employee developed entirely on the Employee's time and without using the Employer's or a Related Entity's equipment, facilities, supplies, or trade secret information. The foregoing exclusions do not apply to inventions that either: (i) relate at the time of conception or reduction to practice of the invention to the Employer's or Related Entity's business, or actual or demonstrably anticipated research or development of the Employer or Related Entity; or (ii) result from any work performed by the Employee for the Employer or Related Entity. To the extent that any provision of this section 1.2 purports to be a present assignment of expectant interests in inventions that is not permitted under this section 1.2(m), or purports to require an assignment of inventions in the future that is not permitted under this section 1.2(m): (iii) this section 1.2(m) controls over that provision; and (iv) that provision is against the public policy of [name of state] and is unenforceable. [USE SECTION 1.2(m) IN AGREEMENTS SUBJECT TO A STATE FREEDOM TO CREATE STATUTE]

(n) The following provisions govern Moral Rights to Work Product:

(i) [Alternative 1: The Employee hereby waives in perpetuity, throughout the world, and in all languages all Moral Rights to Work Product.] [Alternative 2: The Employee hereby waives in perpetuity, throughout the world, and in all languages all Moral Rights to Work Product, and the Employee's Intellectual Property that the Employee presently assigns to the Employer or covenants to assign in the future to the Employer.] For purposes of this agreement, "**Moral Rights**" means: (A) the rights to attribution and integrity; (B) the rights of approval, prevention, or objection to: (I) publication, distribution, or use; (II) withdrawal from circulation; and (III) subsequent changes to or destruction; (C) the rights to prevent changes prejudicial to the Employee's reputation; and (D) any right identical or similar to any of the rights in clauses (A) to (C) under the Law of any country or political subdivision thereof or under any treaty, and without regard to whether the right is denominated or referred to as a moral right, artist's right, droit moral, or any other right.

(ii) The Employee in the Employee's exclusive discretion may make accurate references in the Employee's resume to the Employee's participation in any Creative Event for Work Product that the Employer or any Related Entity has made public.

(o) The Employer and its Related Entities do not grant the Employee any license in Work Product.

(p) The Employer or a Related Entity in its exclusive discretion may procure and hold in its name copyrights, patents, service marks, trademarks, registrations, and any other protection available for Work Product under

the Laws of the United States, any state thereof, and other countries. Whenever requested by the Employer or a Related Entity, the Employee shall sign all applications, assignments, and powers-of-attorney, perform all other acts, and provide testimony in any proceeding to: (i) procure, perfect, maintain, continue, extend, reissue, renew, enforce, recover damages for infringement on or violation of, or defend any copyright, mask work, patent, service mark, trademark, registration, and other protection for Work Product under the Laws of the United States, any state thereof, and other countries; and (ii) protect Work Product, and any copyright, patent, service mark, trademark, registration, and other protection for Work Product, against abandonment, forfeiture, or loss. The Employee's obligations under this section 1.2(p) will survive the Employee's Separation From Service. The Employer shall pay or promptly reimburse the Employee's expenses of performing the Employee's obligations under this section 1.2(p). [Alternative 1: Other than the Employee's compensation for the Employee's Service and any compensation on the Employee's Separation From Service, the Employee is not entitled to any other compensation to perform the Employee's obligations under this section 1.2(p).] [Alternative 2: Other than the Employee's compensation for the Employee's Service during the term of the Employee's Service, the Employee is not entitled to any other compensation for performing the Employee's obligations under this section 1.2(p). After the Employee's Separation From Service, the Employer shall compensate the Employee at a reasonable rate for the time actually spent by the Employee at the Employer's or a Related Entity's request to perform the Employee's obligations under this section 1.2(p).]

(q) If after reasonable efforts the Employer or a Related Entity does not obtain the Employee's signature on any application, assignment, or power-of-attorney, the Employer's CEO or Secretary may sign the document as the Employee's agent and attorney-in-fact. The Employee hereby irrevocably designates and appoints the Employer's CEO or Secretary as the Employee's agent and attorney-in-fact to sign any application, assignment, or power-of-attorney, and to take the actions that the Employer or Related Entity determines necessary to protect its interests in any Work Product. This designation and appointment will survive the Employee's death or Disability.

(r) The provisions of section 1.2(p)-(q) do not limit the effectiveness of the present assignments of expectant interests under this agreement.

(s) The Employer or a Related Entity in its exclusive discretion shall determine whether to: (i) apply for copyright, patent, registration, service mark, trademark, or other protection for any Work Product; (ii) maintain Work Product as a trade secret or as Confidential Information other than a trade secret; and (iii) commercialize or market any Work Product.

(t) The Employee is not entitled to any royalty for any efforts of the Employer or any Related Entity to commercialize or market any Work Product.

(u) The Employee shall not: (i) infringe on, contribute to the infringement on, or interfere with, or solicit, encourage, or induce any Person to infringe on, contribute to the infringement on, or interfere with, the Em-

ployer's or any Related Entity's rights in any Work Product; and (ii) hinder, subvert, or thwart, or solicit, encourage, or induce any Person to hinder, subvert, or thwart, the Employee's assignments and grants of rights to the Employer, or the collection of proceeds arising from or relating thereto.

(v) Except as necessary to perform the Employee's Service, the Employee shall not: (i) use, or cause or permit to be used, Work Product for the Employee's personal benefit, or the benefit of a member of the Employee's Immediate Family, a Family Entity, any Person that engages in a Rival Business, or any other Person; (ii) disclose, or cause or permit to be disclosed, any Work Product; (iii) solicit, encourage, or induce, or cause or permit to be solicited, encouraged, or induced, any third-party request or demand for disclosure of Work Product; (iv) copy or transmit, or cause or permit to be copied or transmitted, any Work Product in any medium; (v) remove, or cause or permit to be removed, any Work Product or copies thereof in any medium from the Employer's Equipment or the Employer's or any Related Entity's facilities or offices; or (vi) disassemble, or reverse engineer any Work Product.

(w) The Employee shall not enter into any agreement with any third-party for any Work Product without the Employer's written consent or direction. The Employer in its exclusive discretion shall determine whether to provide its consent or direction.

(x) The Employee acknowledges that in performing the Employee's Service the Employee may identify or evaluate intellectual property of other Persons that is useful in any current or reasonably anticipated research or development of the Employer or any Related Entity, or that has actual or potential economic value in any current or reasonably anticipated business of the Employer or any Related Entity (the "**Third-Party Intellectual Property**"). The Employee acknowledges that all rights to, interests in, and opportunities arising from or relating to Third-Party Intellectual Property will belong exclusively to the Employer or a Related Entity. Except as necessary to perform the Employee's Service, the Employee shall not pursue any opportunity or engage in any transaction arising from or relating to Third-Party Intellectual Property for the Employee's personal benefit, or the benefit of a member of the Employee's Immediate Family, a Family Entity, any Person that engages in a Rival Business, or any other Person.

(y) On Separation From Service, or at any earlier time or times when requested by the Board or the board of directors or other governing body of a Related Entity, the Employee shall promptly deliver the Work Product in the Employee's possession or control to the Employer or Related Entity (the request, a "**Work Product Request**"). In satisfying a Work Product Request, the Employee shall not retain any Work Product or copies thereof in any medium on the Employee's Equipment. At the Employer's or a Related Entity's request, the Employee shall advise in writing whether the Employee has satisfied a Work Product Request.

(z) The Employee hereby grants to the Employer and its Related Entities the right to use the Employee's Identity in any business as long as the use is not part of a Wrongful Statement regarding the Employee, the Em-

ployee's Immediate Family, or a Family Entity. The Employee hereby waives any claim or right that the Employee has in the right granted in this section 1.2(z). This right and waiver will survive the Employee's Separation From Service. For purposes of this agreement, "**Employee's Identity**" means: (i) the Employee's caricature, image, likeness, name, photograph, or voice; (ii) any reproduction or simulation of any of the items in clause (i); or (iii) the Employee's biographical information. The items in clauses (i) and (ii) apply in any form of media or technology now known or hereafter developed.

(aa) Except as necessary to perform the Employee's Service, the Employee shall not use the name, "Big Pharma, Inc.," or any design, mark, word, or any other name used in any business of the Employer or any Related Entity: (i) in any advertising, promotion, or publicity; or (ii) to express or imply any endorsement, support, criticism, or opposition by the Employer or any Related Entity. This section 1.2(aa) does not prevent the Employee from using the name, "Big Pharma, Inc.," to describe the Employee's positions and work with the Employer and its Related Entities.

(bb) To the extent that any Related Entity is not granted any right under this section 1.2, the Employer's Related Entities are third-party beneficiaries of the Employer's rights under this section 1.2. If in a Transaction another Person acquires a Related Entity's third-party beneficiary's rights in effect on consummation of the Transaction, that Person will succeed to those rights without regard to whether the Related Entity becomes a former Related Entity. In addition, if a Related Entity becomes a former Related Entity in a Transaction in which the former Related Entity retains the Related Entity's third-party beneficiary's rights in effect on consummation of the Transaction, the former Related Entity will continue to have those rights.

(cc) The Employer will have the rights under this section 1.2 in Work Product whenever a Creative Event involves a Related Entity. Except as otherwise provided in a Transaction, the Employer will continue to have its rights under this section 1.2(cc) without regard to whether the Related Entity becomes a former Related Entity in the Transaction, or another Person succeeds to all or a portion of the Related Entity's assets, businesses, or investments in the Transaction.

**1.3 Applicability of Obligations.** The Employee's obligations under sections 1.1 and 1.2 apply in the Employee's relationship with any Person as: (a) advisor; (b) agent; (c) consultant; (d) director; (e) employee; (f) holder of an option to acquire a debt obligation or an equity interest; (g) independent contractor; (h) investor; (i) lender; (j) lessee; (k) lessor; (l) licensee; (m) licensor; (n) manager; (o) member; (p) member of the governing body; (q) officer; (r) partner; (s) promoter; (t) shareholder; (u) sole proprietor; (v) trustee; or (w) any combination of the relationships under this section 1.3.

**1.4 Definitions.** The following terms have the following definitions:

(a) "**Board**" means the Employer's board of directors.

(b) "**Code**" means the Internal Revenue Code of 1986, as amended, the final and temporary regulations thereunder, and the authorities that qualify as substantial authority under Code Section 6662.

(c) “**Control**” means: (i) ownership directly or through one or more intermediaries of more than fifty percent by vote or value of the equity securities or other beneficial equity ownership of a Person; or (ii) the power through ownership of voting securities, contract, or otherwise, and whether directly or through one or more intermediaries, to (A) direct the management or policies of a Person, or (B) conduct the day-to-day business operations of a Person.

(d) “**Disability**” means that the Employee is [Alternative 1: unable to engage in any substantial gainful activity because of any medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of at least twelve months.] [Alternative 2: (i) unable to engage in any substantial gainful activity because of any medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of at least twelve months; or (ii) receiving income replacement benefits for at least three months under an accident and health plan covering the Employer’s employees because of any medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of at least twelve months.] [Alternative 3: unable to perform the duties of the Employee’s position of employment or any substantially similar position of employment due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months.] [Use Alternative 3 with Alternative 2 of section 1.4(r)(i) in the definition of Separation From Service]

(e) “**Disparage**” means to criticize a Person’s acumen, character, compliance with Law or industry standards, conduct, ethics, integrity, performance, quality of a product or service, or reputation.

(f) “**Effective Date**” means [Alternative 1: the date set forth in the introductory provision of this agreement.] [Alternative 2: specified date]

(g) “**Employee’s Equipment**” means the Employee’s personal computers, information processing systems, laptops, mobile phones, networks, smart phones, tablets, telecommunications systems, and other devices, equipment, and systems.

(h) “**Employee’s Service**” means the Employee’s positions and duties with the Employer and its Related Entities.

(i) “**Employer’s Equipment**” means the computers, information processing systems, laptops, mobile phones, networks, smart phones, tablets, telecommunications systems, and other devices, equipment, and systems provided by the Employer or a Related Entity.

(j) “**Family Entity**” means any Person in which (i) the Employee, (ii) one or more members of the Employee’s Immediate Family, or (iii) any combination of the Persons in clauses (i) and (ii), owns an equity interest possessing at least five percent of the total combined voting power of the equity interests entitled to vote, or at least five percent of the total value of all classes of equity. In determining ownership, the rules of Treasury Regulation Sections 1.414(c)-3 and 1.414(c)-4 apply.

(k) “**Government Body**” means: (i) the government of any country, state, county, or municipality; (ii) the

government of any political subdivision of a country, state, county, or municipality (each of the governments in clauses (i) and (ii), a “**Government**”); (iii) any instrumentality of any Government; (iv) any other Person authorized by Law to perform any administrative, executive, judicial, legislative, military, police, or regulatory functions of a Government; (v) any intergovernmental organization; and (vi) any successor to the entities under clauses (i) to (v).

(l) “**Immediate Family**” means a: (i) child; (ii) stepchild; (iii) grandchild; (iv) parent; (v) stepparent; (vi) grandparent; (vii) spouse; (viii) former spouse; (ix) domestic partner; (x) former domestic partner; (xi) sibling; (xii) niece; (xiii) nephew; (xiv) mother-in-law; (xv) father-in-law; (xvi) son-in-law; (xvii) daughter-in-law; (xviii) brother-in-law; (xix) sister-in-law (the individuals in (i) through (xix), the “**Family Individuals**”); (xx) person sharing the Employee’s household, other than a tenant or an employee; (xxi) trust in which one or more Family Individuals, whether separately or together with the Employee, own more than fifty percent of the beneficial interests; (xxii) foundation for which one or more Family Individuals, whether separately or together with the Employee, Control the management of the foundation’s assets; or (xxiii) any other Person in which one or more Family Individuals, whether separately or together with the Employee, own more than fifty percent of the total voting power or the total equity interests by value. Family Individuals include those with the relationship by birth or adoption.

(m) “**Law**” means an administrative decision on which Persons other than those to whom the decision was issued can rely, judicial decision on which Persons other than those to whom the decision was issued can rely, ordinance, regulation, rule, or statute.

(n) “**Material**” means a level of importance that would have affected the decision of a reasonable person in the position of the Person subject to the requirement that the conduct, act, omission, or event be Material. Any conduct, act, omission, or event that is Material is also Significant.

(o) “**Person**” means a business trust, corporation, estate, general partnership, individual, limited liability company, limited liability partnership, limited partnership, sole proprietor, trust, or other entity.

(p) “**Related Entity**” means: (i) a corporation that is a member of the same controlled group of corporations as the Employer under Code Section 414(b). In applying Code Section 1563(a)(1)-(3), the language “at least 50 percent” is to be used instead of “at least 80 percent” each place it appears in Code Section 1563(a)(1)-(3); or (ii) a Person that is a member of the same group of trades or businesses under common control as the Employer under Code Section 414(c). In applying Treasury Regulation Section 1.414(c)-2, the language “at least 50 percent” is to be used instead of “at least 80 percent” each place it appears in Treasury Regulation Section 1.414(c)-2.

(q) “**Rival Business**” means [Alternative 1: all or a portion of a Person’s business that competes with a [Alternative A: Material portion] [Alternative B: Significant portion] of any business that the Employer or any Related Entity conducts, or to the Employee’s knowledge that the Employer or Related Entity has definitive

plans to conduct and reasonably expects will constitute a [Alternative A: Material portion] [Alternative B: Significant portion] of the Employer's or Related Entity's business in the next twelve months.] [Alternative 2: the development, manufacture, distribution, licensing, or sale of a product, process, development, or service that competes with a product, process, development, or service that is a [Alternative A: Material portion] [Alternative B: Significant portion] of any business that the Employer or any Related Entity conducts, or to the Employee's knowledge that the Employer or Related Entity has definitive plans to conduct and reasonably expects will constitute a [Alternative A: Material portion] [Alternative B: Significant portion] of the Employer's or Related Entity's business in the next twelve months.

(r) "**Separation From Service**" means termination of the Employee's Service due to separation from service as an employee, director, and independent contractor of the Employer and its Related Entities when the Employee dies, retires, or otherwise terminates service as follows:

(i) The Employee's employment will be treated as continuing while the Employee is on military leave, sick leave, or other bona fide leave of absence, as long as the period of leave does not exceed six months, or if longer, as long as the Employee's right to reemployment with the Employer or a Related Entity is provided under contract or statute. [Alternative 1: A leave of absence will be bona fide only if the Employer or a Related Entity and the Employee reasonably expect that the Employee will return to perform services for the Employer or a Related Entity. If the period of leave exceeds six months and the Employee's right to reemployment is not provided under contract or statute, the Employee's employment will be deemed to terminate on the first business day immediately after the six month period;] [Alternative 2: A leave of absence will be bona fide only if the Employer or a Related Entity and the Employee reasonably expect that the Employee will return to perform services for the Employer or a Related Entity. When the period of leave is not due to Disability and exceeds six months, and the Employee's right to reemployment is not provided under contract or statute, the Employee's employment will be deemed to terminate on the first business day after the six month period. When the period of leave is due to Disability and exceeds twenty-nine months, and the Employee's right to reemployment is not provided under contract or statute, the Employee's employment will be deemed to

terminate on the first business day after the twenty-nine month period;] [Use Alternative 2 with Alternative 3 of section 1.4(d) in the definition of Disability]

(ii) A director or independent contractor will have a Separation From Service upon the expiration of the contract, and if there is more than one contract, all contracts, under which he or she performs services. The expiration must be a good faith and complete termination of the contractual relationship; and

(iii) If the Employee performs services in more than one capacity, the Employee will have a Separation From Service when the Employee separates from service in all capacities as an employee, director, and independent contractor of the Employer and its Related Entities. Notwithstanding the prior sentence, if the Employee provides services both as an employee and a director, the services provided as a director will not be taken into account in determining whether the Employee has a Separation From Service as an employee under a nonqualified deferred compensation plan in which the Employee participates as an employee and that is not aggregated under Code Section 409A with any plan in which the Employee participates as a director. In addition, if the Employee provides services both as an employee and a director, the services provided as an employee will not be taken into account in determining whether the Employee has a Separation From Service as a director under a nonqualified deferred compensation plan in which the Employee participates as a director and that is not aggregated under Code Section 409A with any plan in which the Employee participates as an employee.

(s) "**Significant**" means important enough to merit the attention of a reasonable person in the position of the Person subject to the requirement that the conduct, act, omission, or event be Significant, and has a lesser level of importance than Material.

(t) "**Transaction**" means a consolidation, contribution, exchange, merger, recapitalization, reorganization, sale, split-off, split-up, or other transaction or arrangement in which rights and obligations are created between the parties.

(u) "**Wrongful Statement**" means an oral or written statement that Disparages a Person or a Person's business, disrupts or impairs or threatens to disrupt or impair a Person's normal operations, intrudes into a Person's seclusion or privacy, publicizes a Person's private matters, or places a Person in a false or misleading light before the public.