

## FEDERAL COURT UPHOLDS AUTOMATIC TRANSFER OF INVENTION RIGHTS TO EMPLOYER IN EMPLOYMENT AGREEMENT

In today's business climate, most employers recognize the need to protect their assets from unauthorized disclosure and use by employees. For that reason, confidentiality, non-compete, and non-solicitation clauses commonly appear in employment agreements.

Similarly, many employers recognize the competitive advantage that can be gained—and profits that can be generated—by an invention or by the improvement of a particular process; such inventions or improvements are often created or discovered by employees from on-the-job resources or ideas. Employers often take action to protect their interest in employees' future work-related inventions by including an "inventions clause" in their employment agreements.

Generally, inventions clauses provide that if an employee creates a work-related invention, the rights to that invention are assigned to the employer. Some clauses go a step further, providing that the assignment occurs automatically.

In *DDB Technologies, LLC v. MLB Advanced Media, LP*, the United States Court of Appeals for the Federal Circuit, which has jurisdiction over certain appeals involving patents, recently affirmed that such an inventions clause was enforceable. According to the Court, an employee may agree that if he or she creates an invention, it is automatically assigned to the employer.

### The Underlying Facts of the *DDB Technologies* Case

Dr. David Barstow was employed by Schlumberger Technology Corp. as a computer scientist. Part of his work involved the development of computer software to control and monitor sensors in oil wells. While neither Barstow nor Schlumberger were parties to the lawsuit, aspects of their employment relationship were critical to the outcome of the *DDB Technologies* case.

To protect its interests, Schlumberger had Barstow sign an employment agreement containing an inventions clause. Among other things, Barstow assigned to Schlumberger his entire interest in all of his inventions that were (1) related to Schlumberger's business, or (2) suggested by or a result of his work for the company.

While he was employed by Schlumberger, Barstow also worked on a number of personal projects. He and his brother were baseball fans, and they invented computerized methods for simulating and searching for information regarding live baseball games. Some evidence was presented that these inventions may have been related to Barstow's work at Schlumberger.

The Barstow brothers applied for and obtained four patents for their inventions, one of which was issued while Barstow still worked for Schlumberger. After obtaining the patents, the Barstow brothers assigned their patent rights to DDB Technologies, LLC, a company they formed to develop and market their inventions.

## The Dispute

DDB alleged that another company, MLB Advanced Media (the interactive media and Internet company of Major League Baseball), was infringing on its patents through several baseball-related Internet services. A lawsuit was filed in federal court in Texas to enforce DDB's claimed patent rights.

As the lawsuit progressed, MLB Advanced Media discovered that Barstow had signed an employment agreement with Schlumberger. In light of the inventions clause described above, MLB Advanced Media took the position that all of Barstow's rights in the inventions had been automatically assigned to Schlumberger. Therefore, MLB Advanced Media reasoned, Barstow had no remaining interest to assign to DDB—because as soon as the inventions were created, they became Schlumberger's property.

In an attempt to short-circuit DDB's lawsuit, MLB Advanced Media purchased all of Schlumberger's interest in Barstow's inventions, along with a retroactive license to use them. MLB Advanced Media then claimed it was a rightful owner of the patents, and filed a motion to dismiss the lawsuit.

## The Court's Ruling

The threshold issue considered by the Court was whether an employee could agree that his or her future work-related inventions would be automatically assigned to an employer. In what is widely considered a victory for employers, the Court held that such a prospective assignment is valid.

The Court observed that state law would generally be applied to interpret the employment agreement. However, because the assignment portion of the invention clause was "intimately bound up" with standing to sue in federal court, it would be interpreted under federal law. This finding is noteworthy because the use of federal law expands the case's precedential value beyond the borders of Texas.

As the Court demonstrated, the enforceability of an inventions clause depends on its wording. If the clause mandates an automatic assignment of rights, then a transfer of the invention from employee to employer could occur by operation of law. On the other hand, if an inventions clause is only an agreement to assign invention rights at some point in the future, then the transfer would not be automatic. In that case, while the employer may have the right to acquire the invention, other steps would still need to be taken to actually transfer ownership.

Because Barstow's employment agreement provided that he "agree[d] to and d[id] hereby grant and assign' all rights in future inventions falling within the scope of the agreement to Schlumberger," the Court held that the assignment in question occurred automatically. As a result, Schlumberger did not have to take any action to accomplish transfer of its interest in the inventions.

After determining that Barstow's employment agreement provided for the automatic assignment of inventions, the Court went on to consider whether the inventions in question were work-related. The employment agreement provided that in order to be assigned to Schlumberger, the inventions must "relate in any way to the business or activities of [Schlumberger]" or be "suggested by or result from" Barstow's job.

As the employment agreement did not define the terms "related to," "suggested by," or "result from," the Court noted that Texas law would be applied to interpret them. The Court then examined the conduct and knowledge of Barstow and Schlumberger, and attempted to derive their subjective beliefs as to whether the inventions fell within the scope of the employment agreement. However, the evidence before the Court on this issue was incomplete, and the case was sent back to the trial court to allow the parties to gather additional information.

While the underlying case was not fully resolved, the Court's holding has important implications for all employers. According to the Court, an employee may agree that his or her rights in future work-related inventions are automatically assigned to the employer. Consequently, an employer could have full rights to an employee's invention, perhaps even when the employer had no knowledge that the invention existed. Because an employer's ownership of the invention may vest by operation of law, this could obviate the need for an employer to take any further action to accomplish transfer of its interest, and could bar an employee from raising defenses (such as laches or estoppel) based on a failure to take such action.

## Practical Considerations for Employers

This case underscores the need for employers to consider including an inventions clause in employment agreements. Any employee, working in any industry or business, may develop a profitable work-related invention or improvement. Without an agreement in place, an invention created by an employee—on company time, with company resources, or as the result of the employee's job—could belong solely to the employee.

Implementing an inventions clause is only part of the solution. It is equally important that the clause be properly drafted. Employers who already use an inventions clause should have its terms reviewed by an attorney to ensure maximum benefit and protection.

*This Employment Law Update is published as a service to our clients and friends. It is intended to be informational and does not constitute legal advice regarding any specific situation.*

### **N|P** Employment and Labor Law Group

#### **CHARLESTON** 843.577.9440

Joshua L. Ellis  
Molly Hughes

#### **CHARLOTTE** 704.339.0304

Sean Phelan  
Grainger Pierce

#### **COLUMBIA** 803.771.8900

Mike Brittingham  
Jennie Cluverius  
Kristian Cross  
David Dubberly  
John Emerson  
Vickie Eslinger  
William Floyd  
Joan Hartley  
Angus Macaulay  
Susi McWilliams  
Nikole Mergo  
Sue Odom  
Sam Painter

#### **GREENSBORO** 336.373.1600

Trudy Ennis  
Peter Pappas  
Bill Wilcox

#### **GREENVILLE** 864.370.2211

Grant Burns  
Jamie Hedgepath  
Leon Harmon  
Rusty Infinger  
Michael Pitts  
Tom Stephenson

#### **HILTON HEAD** 843.689.6277

Melissa Azallion

#### **MYRTLE BEACH**

843.213.5405

Molly Hughes

### **NEXSEN | PRUET**

