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Allocating Intellectual Property Rights Between Parties

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Introduction

Intellectual property rights are allocated between parties in many different settings, including:

- a. The employer-employee context;
- b. The independent contractor context;
- c. The purchase and sale of a business;
- d. The franchise or licensing of a business;
- e. The settlement of a dispute; and,
- f. The use of intellectual property as collateral.

As is further discussed below, very often there is a writing requirement for purposes of agreements shifting ownership or other rights. Also, some intellectual property rights allocation agreements must contain "special" language. A lawyer in an intellectual property allocation situation may also be faced with the question of whether, where, and when to record such agreements. Finally, a lawyer should know the best uses of these documents.

I. Employer-Employee Relationships

A. Inventions

Generally speaking, the individual or individuals who invented an invention own the patent rights in the invention. See 35 USC § 101¹; see also Banks v. Unisys Corp., 228 F.3d 1357, 1359 (Fed. Cir. 2000); see also Pedersen v. Akona, LLC, 429 F.Supp.2d 1130, 1141 (D.Minn. 2006). This is the case even where the inventor is an employee and conceived and reduced to practice the invention while in the course of employment. Banks, 228 F.3d at 1359; Richard A. Lord, 19 Williston on Contracts, §54:20 (“Rights in intellectual property created by employee”) (4th ed.).²

Consequently, it is good practice for employers to require employees to assign inventions to the employer in a written document. The issues that arise

¹ “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, subject to the conditions and requirements of this title.” 35 U.S.C. §101 (emphasis supplied).

² There are two main exceptions to this rule. One exception, the “hired-to-invent doctrine,” applies where an enforceable, implied-in-fact contract exists under which an assignment of the invention from the employee to the employer is implied; the existence and enforceability of this doctrine is a question of fact applying state contract law. Pedersen, 429 F.Supp.2d at 1141; Banks, 228 F.3d at 1359 (citing Teets v. Chromalloy Gas Turbine Corp., 83 F.3d 403, 407 (Fed. Cir. 1996)). The second exception to this rule is not really an exception, but rather a work-around. It is a common law concept known as a “shop right” and provides the employer not with ownership of the patented invention but with a royalty-free right to exploit the invention. Pedersen, 429 F.Supp.2d at 1142; McElmurry v. Arkansas Power and Light Co., 995 F.2d 1576 (Fed. Cir. 1993). The shop right is an equitable principle and would be found on a case-by-case looking at the totality of the circumstances, although the Court of Appeals for the Federal Circuit has listed factors applicable. McElmurry, 995 F.2d at 1581 – 1582; see also Heywood-Wakefield Co. v. Small, 87 F.2d 716, 721 (1st Cir. 1937) (holding no shop right).

with such agreements to assign inventions are many, see, e.g., Edward L. Raymond, Jr., Construction and effect of provision of employment contract giving employer right to inventions made by employee, 66 A.L.R.4th 1135, but generally involve the following topics:

- a. The timing of the agreement to assign as compared to the timing of the conception of the invention;
- b. Whether the invention is included within the scope of inventions covered in the agreement to assign inventions;
- c. Whether the agreement to assign inventions extends beyond the term of the employment, and, if so, whether that extension is reasonable in duration and scope of invention.
- d. Whether the invention was conceived within the scope of employment;
- e. Whether the employee was hired to invent or solve a problem versus whether the employee merely created the invention during the course of employment;
- f. Issues which tend to arise with contract matters, such as misrepresentation, fraud, duress, adequacy of consideration, adhesion, unconscionability, capacity, interpretation of agreement, laches, estoppel, and modification; see, id.; see also 6 Williston on Contracts, §13:15; and,
- f. Specific state statutes.³

³ For example, Section 2870 of California's Labor Code prohibits agreements under which employees assign inventions developed entirely on the employee's own time and equipment to employers unless the work is performed by the

Although the law recognizes exceptions, see footnote 2, supra,⁴ an assignment of patent rights must be in writing. 35 U.S.C. §261 (“Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing.”). In order to enjoy the benefit of prima facie evidence of the execution of the assignment, the assignment must contain a certificate of acknowledgement by a notary public or similar officer. Id. The Patent Act contains a race-notice statute, under which recordation of the assignment must pre-date or be made within three months of the date of the assignment to take priority over a subsequent bona fide purchaser for value. Id. The recordation is made with the U.S. Patent and Trademark Office. Id. Finally, “patents shall have the attributes of personal property,” id., and therefore agreements to assign inventions should bind the inventor-employee’s heirs.

B. Copyrights

Unlike inventions, under the work for hire doctrine, employers not only own but are also deemed the author of works created by employees within the

employee for the employer or the invention – at the time it is conceived or reduced to practice – relates to the employer’s business or actual or demonstrably anticipated business. See Ann. Cal. Labor Code § 2870 (West); see also Melvin F. Jager, 3 Trade Secrets Law, App. H.

⁴ Even though an assignment of an invention may be implied-in-fact under the hired-to-invent doctrine, in order to then use that doctrine to obtain a patent in a case where an inventor is not cooperative or cannot be located, an employer will need to either file a petition for specific performance to obtain a written assignment or submit a petition with the patent application to the U.S. Patent and Trademark Office setting forth the grounds for the assignment and equitable reasons to allow the application to move forward. 60 Am. Jur. 2d, Patents, §304 (as to petition to USPTO); 37 C.F.R. §1.47 (same).

scope of employment. 17 USC §§101 (definition of “work made for hire”)⁵, 201(a) (“[c]opyright . . . vests initially in the author or authors of the work”), and 201(b) (“In the case of a work made for hire, the employer . . . is considered the author . . . and . . . owns all of the rights comprised in the copyright.”).

The determination of whether an individual is an employee is based on traditional agency law, although a federalized – rather than state-based – rule of law. Community for Creative Non-Violence v. Reid, 490 U.S. 730 at 740-741 (citing, *inter alia*, the Copyright Act preemption provision found in 17 U.S.C. §301(a) in support of use of general common law agency rather than the law of any particular state) and at 751-52 (factors) (1989) (“CCNV”). A non-exhaustive list of factors is considered to determine “the hiring party’s right to control the manner and means by which the product is accomplished.” *Id.* The CCNV Court listed the following factors in its non-exhaustive, no-one-fact-is-determinative list:

- the skill required;
- the source of the instrumentalities and tools;
- the location of the work;
- the duration of the relationship between the parties;
- whether the hiring party has the right to assign additional projects to the hired party;
- the extent of the hired party’s discretion over when and how long to work;
- the method of payment;

⁵ “A ‘work made for hire’ is – (1) a work prepared by an employee within the scope of his or her employment...” 17 U.S.C. §101.

- the hired party's role in hiring and paying assistants;
- whether the work is part of the regular business of the hiring party;
- whether the hiring party is in business;
- the provision of employee benefits; and
- the tax treatment of the hired party.

Id. (footnote citations omitted) (citing Restatement (Second) of Agency, § 220(2) (1958)).

The First Circuit applied the CCNV test in determining that the creator of a work (a manual) was an employee – albeit a part-time employee – acting in the scope of his employment and that the employer therefore was deemed the author under the work for hire doctrine. Saenger Org., Inc. v. Nationwide Ins. Licensing Assoc., Inc., 119 F.3d 55, 60-62 (1st Cir. 1997). Even though the creator of the work produced the manuals during evenings and weekends while he was employed by another company, the court found that the overwhelming majority of CCNV factors resulted in a determination that he was an employee. Id. Among these were a statement by the creator that he was a “former employee,” the company’s issuance of a W-2 for his wages (with a 1099 for bonuses), and use of employer word processing equipment. Id.

II. Independent Contractors

A. Inventions

In the absence of a written assignment, inventors are generally the owners of inventions, see discussion in Section I.A., supra, and given that the hired-to-invent exception generally would not apply to independent contractors, see

footnote 2, supra, the use of independent contractors leads to an even stronger need for a written assignment of inventions. The assignment requirements and recordation requirements listed in Section I.A. apply equally to independent contractors.

B. Copyrights

The CCNV test discussed in Section I.B., supra, would be applied in determining whether an individual is working for a business or organization as an employee or as an independent contractor. Once it is determined that the creator of a work is considered an independent contractor, authorship – and thereby ownership-in-the-first-instance -- of the copyrights in the work would be determined by whether the work constitutes a “work made for hire.” 17 U.S.C. §§ 101, 102(a), and 102(b). Extrapolating from the statutory definition of works made for hire, commissioned works considered works for hire must meet two main elements: (1) there must be a written work for hire agreement, and (2) the work must fall within the list of works provided for in the statute. See 17 U.S.C. §101. The statute more specifically identifies these elements:

A “work made for hire” is—

...

□(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 instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a “supplementary work” is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising,

commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

Upon inspection of the statutory definition, it can be seen that the list of commissioned works eligible for work for hire status is fairly limited. With the exception of contributions to movies ("part of a motion picture or other audiovisual work") and the creation of textbooks in the field of education ("instructional text" and "test"), the types of works listed are generally secondary to a main work. For example, the types of works covered by this commissioned work for hire statute include translations of works of others, forewords, illustrations, tables, bibliographies and appendices in books of others, test answers, and compilations of others' works.

Given that a written agreement is required to create a work for hire arrangement and the fact that there is a chance the work intended to be owned by the commissioning party may not fall within one of the types of works in the statute, it is common to apply a "belt and suspender" approach in drafting a written agreement with an independent contractor regarding copyrights in works created. In such an agreement, there would exist a provision deeming copyrightable works "works for hire," but should they not be works for hire, the independent contractor would assign copyrights in the works to the commissioning party. See Gregory J. Battersby and Charles W. Grimes, 1 *Multimedia and Technology Licensing Agreements* § 3:5 (2009). Whether an independent contract would agree to such an agreement and assignment is a

point ideally negotiated upon commencement of the relationship.

Assignments of copyright ownership must be in writing. 17 U.S.C. §204(a) (“A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner’s duly authorized agent.”). In order to enjoy the benefit of prima facie evidence of the execution of the assignment, the assignment must contain a certificate of acknowledgement by a notary public or similar officer. See 17 U.S.C. §204(b). The Copyright Act contains a race-notice statute, under which recordation of the assignment must pre-date or be made within one month (in the case of execution of an agreement in the U.S.) of the execution of the assignment to take priority over a subsequent bona fide purchaser for value. 17 U.S.C. §205(c). The recordation is made with the Copyright Office. 17 U.S.C. §205.

When drafting a copyright assignment, it is typical to specifically list which of all of the applicable copyrights found in 17 U.S.C. §106⁶ are transferred, as

⁶ Section 106 provides as follows: “Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

these separate rights may be separately assigned. See 17 U.S.C. §201(d)(1) and (2) and 17 U.S.C. §106; see also William F. Patry, 2 Patry on Copyright, §§5:2 and 5:101. Given that the duration of copyright for an individual author is the author's life plus 70 years, 17 U.S.C. §302(a), the identity of the holder of posthumous rights is relevant to copyrights. Copyrights "may be bequeathed by will or pass as personal property by the applicable laws of intestate succession. 17 U.S.C. §201(d)(1). Therefore, agreements pertaining to copyrights should bind the author's heirs.

If the commissioning party in an independent contractor relationship cannot obtain authorship under the work for hire doctrine or ownership by assignment of the copyrights, the commissioning party may seek a license to any one or all of the exclusive copyrights found in Section 106.⁷ A written agreement is generally required for a license, but a non-exclusive license may be implied. Meisner Brem Corp. v. Mitchell, 313 F.Supp.2d 13 (D.NH 2004) (citing 17 U.S.C. §204(a)) (writing requirement) and John G. Danielson, Inc. v. Winchester-Conant Properties, Inc., 322 F.3d 26 (1st Cir. 2003) (implied non-exclusive license)); see also MacLean Assoc., Inc. v. Wm. M. Mercer-Meidinger-Hansen, Inc., 952 F.2d 769 (3d Cir. 1992); see also Effects Assoc., Inc. v. Cohen, 908 F.2d 555 (9th Cir. 1990). The Meisner Brem court applied the following three-part test from the Danielson decision in determining that a non-exclusive license was implied:

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission."
17 U.S.C. §106.

⁷ See footnote 6, supra.

First, the licensee must have requested the creation of the work. *Id.* Second, the licensor must have created and delivered that work to the licensee. *Id.* And third, the licensor intended that the licensee distribute the work. *Id.* The copyright owner's intent is the "touchstone" for finding that an implied license exists. *Id.* at 40.

Meisner Brem, 313 F.Supp.2d at 17 (citing Danielson). The licensee bears the burden of proof. *Id.*

III. The Purchase and Sale of a Business

When an entire company or a line of business within a company is acquired by asset purchase, the proper documents must be prepared to assign the intellectual property rights to the new owner.

A. Patents

Assignments in patents are covered in Section I.A., supra, which generally outlines the writing requirement, notarization of the document, and recordation.

B. Trade Secrets

Trade secrets are typically assigned within the context of the asset purchase agreement and bill of sale. See, e.g., 25A West's Legal Forms, Intellectual Property, §14.9 (3d ed.) (2008). However, the lawyer should consider the nature of the particular trade secrets involved in ascertaining the appropriate documentation for transfer, including any requirements for prior written approval of a third person in the assignment of a non-disclosure agreement or other agreement concerning the trade secrets.

C. Copyrights

Copyright assignments are covered in Section II.B., supra, which generally outlines the writing requirement, notarization of the document, and recordation.

D. Trademarks

Trademarks may exist at common law, be federally registered, be state registered, have foreign registrations, or any or all of the above. Also, trademark rights should identify not only the mark involved (with or without a stylized element) but also the goods and/or services provided under the mark(s). Once the scope of trademark rights to be assigned is defined, a proper written document or documents may be produced. 15 U.S.C. §1060(a)(3) (writing requirement). Notarization of the signature provides prima facie evidence of the assignment's execution. Id. The federal trademark act, known as the Lanham Act, includes a race-notice statute, requiring recordation of the assignment with the U.S. Patent and Trademark Office prior to a subsequent purchase or within three months of the date of the assignment to take priority over a subsequent bona fide purchaser for value. 15 U.S.C. §1060(a)(3).

Trademarks cannot be assigned in a vacuum, but rather must be assigned along with all the goodwill associated with the mark. 15 U.S.C. §1060(a)(1).⁸ Not only must the "magic language" of the statute be used, but the sale of the business must substantively involve the sale of the goodwill, Mister Donut of

⁸ "A registered mark or a mark for which an application to register has been filed shall be assignable with the good will of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the mark. Notwithstanding the preceding sentence, no application to register a mark under section 1051(b) of this title shall be assignable prior to the filing of an amendment under section 1051(c) of this title to bring the application into conformity with section 1051(a) of this title or the filing of the verified statement of use under section 1051(d) of this title, except for an assignment to a successor to the business of the applicant, or portion thereof, to which the mark pertains, if that business is ongoing and existing." 15 U.S.C. §1060(a)(1).

America, Inc. v. Mr. Donut, Inc., 418 F.2d 838, 842 (9th Cir. 1969). This may include patent, trade secret, and copyrights associated with use of the mark. Goodwill may also include machinery, plans, ingredients, recipes, formulas, vendor information, and the like. See id. In essence, the good or service to be produced by the purchaser of the business which is sold under the same mark as used by the seller must convey the same quality and not bring into question the source of the good or service in the mind of the consumer. Failure to assign a mark along with the goodwill associated with the business will result in a failure to convey rights. Id.

Because of the goodwill requirement, pending intent-to-use trademark applications cannot be assigned to a purchaser (the reason being that if the mark is not in use in commerce, there is no goodwill to assign, which would render the assignment an assignment in gross, which conveys no rights). However, there is an exception, which is that successors-in-interest of the business may take an assignment of an intent-to-use application. See 15 U.S.C. 1060(a)(1) (footnote 8, supra).

Trademark assignments should be recorded with the U.S. Patent and Trademark Office. 15 U.S.C. §1060(a)(4).

IV. The Franchise or Licensing of a Business

When engaged in intellectual property licensing, it is important to understand the underlying rights involved with each type of intellectual property, the duration of those rights, any applicable requirements for licensing those rights, and collateral concerns, such as anti-trust violations. Although some key

elements of licenses for each type of intellectual property are listed below, many licenses involve multiple types of intellectual property and consequently result in a different structure.

A. Patents

A patent provides its owner with the exclusive right to make, use, and sell the invention. See 35 U.S.C. §271. Patent licenses typically specify which (one, two, or all) of these rights to exclude are "granted" in the license, specify a duration not to exceed the term of the patent, and may only involve the making, using, and/or selling of the invention in the United States. Numerous other provisions unique to contracts which are patent licenses must be considered and included, such as provisions for a grant-back on improvements in the invention, handling infringement claims, and export controls. See, e.g., Mark S. Holmes, Patent Licensing: Strategy, Negotiation & Forms (PLI 2007).

B. Trademarks

Analogous to the requirement that assignments of trademarks be made with the associated goodwill is the requirement that licenses of trademarks be made with a quality control provision. J. Thomas McCarthy, 1 McCarthy on Trademarks and Unfair Competition, 4th ed., §2:20. In short, licensors must assure that the licensee's use of the licensor's mark maintains the standards of quality practiced by the licensor such that consumers assuming a good or service bearing a certain mark represents the same qualities whether purchased from licensor or licensee. See Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367 (2d Cir. 1959).

C. Copyrights

Copyright licenses, like copyright assignments, may disaggregate the exclusive rights provided under Section 106 of the Copyright Act. See William F. Patry, 2 Patry on Copyright, §§5:2 and 5:101. For example, a musical performing artist may grant a license for a record company to distribute a particular sound recording, but may not grant a license for a record company to create derivative works of the underlying song. In other words, the record label could burn and sell CDs but not, say, allow another artist to perform a different version of the same song.

V. The Settlement of a Dispute

When parties are in a dispute regarding intellectual property, e.g. claims of patent, trademark, or copyright validity and/or infringement or claims of misappropriation of trade secrets, they may enter into a settlement of that dispute. In addition to or in lieu of a release as is typical with settlements may be an assignment, license, or consent to register. For example, if party A alleges that party B is infringing its patent, the parties may settle under the terms of a royalty-based patent license. Parties may similarly settle a copyright dispute with a copyright license. In the case of a trademark infringement matter, the parties may resolve their dispute by entering into a co-existence agreement (which typically involves an agreement that there is no likelihood of confusion and the parties agree to co-exist within certain boundaries (geographical, use-based, design-based, or otherwise) of use of their respective trademarks). 3 McCarthy on Trademarks and Unfair Competition § 18:79 (4th ed.) Co-existence

agreements are given significant weight when presented to the U.S. Patent and Trademark Office in the context of a rejection of registration based on a likelihood of confusion with the other mark. In re E. I. du Pont de Nemours & Co., 476 F.2d 1357, 177 USPQ 563 (C.C.P.A. 1973).

VI. The Use of Intellectual Property as Collateral

Intellectual property may be used as collateral to secure an obligation. See Thomas M. Ward, Securing and Perfecting Security Interest in Intellectual Property, 9 Me.B.J. 154 (1994). A proper security instrument must be drafted and, in order to perfect the interest, the document must be properly recorded. *Although it is common to record security interest in patents and trademarks with the U.S. Patent and Trademark Office to provide others with notice, the perfection of the interest lies with a traditional recordation under the Uniform Commercial Code. See Ward, supra; but see same* (while acknowledging the UCC applicability, Professor Ward comments on the unsatisfactory state of the law in this field).

It is unclear as to the appropriate recordation to perfect a security interest in copyrights, given the Copyright Act and its preemption provision. Id. Consequently, it is recommended that security interest in copyrights be recorded both at the Copyright Office and pursuant to the Uniform Commercial Code.

VII. Conclusion

In conclusion, crafting documents for the allocation of intellectual property rights involves, inter alia, considerations of the nature of the rights conferred in

the underlying type of intellectual property and the nature of purpose of the document.