Ellenoff Grossman & Schole LLP

Client Alert

(Attorney Advertisement)

February 22, 2016

Recent Federal Circuit Decision Demonstrates The Importance Of Having IP Rights Assigned For Work Done Prior To The Effective Date Of Consulting Or Employment Agreements.

To our clients and friends:

A recent decision of the United States Court of Appeals for the Federal Circuit ("Federal Circuit") provides a useful reminder that employers must pay close attention to assignments of patent and other intellectual property rights, particularly in situations where an employee or consultant has begun work before a consulting or employment contract is finalized. In *TriReme Medical, LLC v. AngioScore, Inc.*, No. 2015-1504 (Fed. Cir. Feb. 5, 2016), the Federal Circuit reversed and remanded dismissal of a correction of an inventorship claim, finding that a question of fact remained whether work the consultant performed after the effective date of his consulting agreement came within the agreement's assignment clause.

Ownership of patent rights initially vest with inventors, and not the companies who employ them or have retained them in consulting agreements. Patent rights can be transferred to employers in assignments. The plaintiff sought to correct inventorship of three of the defendant's patents, alleging that a former consultant of the defendant should have been named an inventor. The consultant's relationship with the defendant deteriorated and he licensed his alleged rights in the patents at issue in the inventorship correction action to the plaintiff over a decade after the effective date of the consulting agreement. If the consultant were to be found an inventor and not to have previously assigned his rights to the defendant, the plaintiff could practice the patents and would have a defense to infringement of the patents.[1] The consulting agreement contained assignment language that made clear that consultant "hereby assign[ed]," to the defendant, among other things, all inventions, developments, and improvements that were made *during the term of the agreement*.

The problem was that the consultant had begun working prior to the effective date of the agreement. The consultant allegedly had run a full day's test on a prototype of the invention, a catheter, prior to the effective date of the consulting agreement. The consultant allegedly

[1] The parties were also involved in separate patent litigation in which the defendant in the inventorship correction action was the plaintiff and the defendant was the plaintiff in and the plaintiff in the inventorship correction action was the defendant.

discovered a problem with the design of the catheter and recommended a solution that was allegedly claimed in the patents.

The district court found that whether the consultant completed his inventive contributions to the catheter before the effective date of his consulting agreement to be immaterial, concluding that the consultant assigned to the defendant whatever rights he had in the patents based on the assignment clause in the consulting agreement and a provision that is commonly used in consulting and employment agreements under which the consultant certified that he had no earlier inventions related to defendant's business that belonged to him solely or jointly in which he was retaining an interest. The consultant testified that he did not list the solution because he did not consider it to be an invention at the time. The district court concluded that the consultant's failure to include the pre-agreement solution on a prior invention list, together with the assignment clause, resulted in an assignment of his rights to that solution to the defendant, based upon the "purpose" of the consulting agreement.

The Federal Circuit reversed, finding that the failure to list the solution, at most granted the defendant a nonexclusive license in the event that the consultant incorporated a prior invention into a product of the defendant during the term of the consulting agreement and that a nonexclusive license to the defendant would not have prevented the consultant from also licensing the plaintiff.

The situation of an employee or consultant having begun work before a formal agreement has been executed is not uncommon. One solution to the problem would have been to include in the consulting agreement an *ex post facto* assignment of any innovations of the consultant that predated the effective date of the consulting agreement.

If you have questions or would like additional information, please contact please contact John C. Stellabotte (jstellabotte@egsllp.com) or the primary EGS attorney with whom you work.

Ellenoff Grossman & Schole LLP is pleased to now offer enhanced Intellectual Property capabilities with the addition of Mr. Stellabotte, a registered patent attorney, and patent and intellectual property lawyer and litigator. Click here for Mr. Stellabotte's biography http://www.egsllp.com/attorneys/john-stellabotte.

ELLENOFF GROSSMAN & SCHOLE LLP
1345 AVENUE OF THE AMERICAS, 11TH FLOOR
NEW YORK, NEW YORK 10105
TELEPHONE: 212-370-1300 FACSIMILE: 212-370-7889
www.egsllp.com