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Allocating Inventorship and Ownership in IP Disputes

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Special to the Legal

Many lawsuits and other proceedings grow out of inventorship disputes. In the United States, since inventorship is the starting place for determining ownership of patented technology, correct naming of inventors and allocations of ownership among the relevant parties at the outset are keystones for strong relationships and dispute avoidance.

When significant financial resources are at stake, most individuals are careful to plan estates, seek prenuptial agreements or obtain careful review of contracts for sale of real estate or businesses. However, it is not always true that individual inventors and organizations invest sufficient time and effort after a new invention is made in determining inventorship and allocating ownership.

A recent example of a failure to clearly establish ownership allocation can be found in the dispute between the University of Alabama in Huntsville, (UAH), and inventor (and former professor at UAH from 1973 to 2000), Milton Harris. Harris, an expert in polyethylene glycol (PEG), developed a process referred to as “PEGylation” which allows PEG polymers to bond with certain therapeutic drugs, thereby facilitating their solubility and other properties in the bloodstream and enhancing performance of such drugs.

Harris’ first patent in this area was obtained while at UAH by the university. However, according to allegations in the lawsuit, Harris left UAH to start Shearwater Corp. Harris continued to develop and file further patents that were issued to Shearwater. In 2003, he then sold Shearwater to Inhale Therapeutic Systems Inc., later known as Nektar Therapeutics, for $197 million.

In the subsequent dispute, UAH alleged that the later-filed patents were related technologies to the original technology developed at the university and were similar to the original patent. UAH sued under its royalty agreement with Harris seeking damages, including damages for unjust enrichment based on the Shearwater sale. A press released issued on July 7 acknowledges that the parties had settled and that Harris and Nektar will pay the university a total of $25 million in exchange for a mutual release of claims.

The issue raised by cases like that of UAH and Nektar is how best to avoid such disputes. The answers are many and varied depending on the circumstances, but the majority of such disputes arise either because no agreement was put into place initially, or because there is a failure to:

• Properly evaluate inventorship upon filing patent applications;

• Establish internal procedures that carefully evaluate activities and developments of employees regarding new inventions and properly identify the correct inventive entity;

• Have intellectual property counsel review standard employment and/or business allocation and royalty agreements to ensure inclusion of proper intellectual property provisions;

• Establish clear, understandable terms in “form” agreements; and

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• Fully understand the import and implications of the language in the final contract leading to breach or abuse of the terms.

The starting place for dispute avoidance is clear understanding of the law of inventorship, including the law underlying resolution of such disputes. Inventorship derives from conception, according to the case *Burroughs Wellcome Co. v. Barr Laboratories Inc*. Inventorship is evaluated upon challenge in litigation as a question of law having underlying questions of fact, according to *Gemstar-TV Guide International Inc., et al. v. International Trade Commission*.

Naming and identifying inventors at the time of preparing an invention disclosure document within an organization, or when contacting attorneys to initiate a patent application, is a good start, but it is not the end of the evaluation. It is more like guessing an answer before a question has been thoroughly framed.

Inventorship is determined in a claim-by-claim analysis, referring to the patent claims.

Co-inventorship of only a single claim in a patent yields co-ownership of the entire patent, since co-owners are each entitled to an undivided share in the entire scope of the patent rights.

To have a patent "claim," a patent application must be written, so initial guesses at inventorship can change as the patent claims are finalized. To determine what to claim and what not to claim in a patent application involves strategic planning that should begin even before writing the application. Further, since "claims," in the event of a dispute, must be construed by a court as a matter of law to determine their scope, careless or inadequate patent specification drafting can lead to interpretations of the claims at issue which may not have been initially intended.

In such cases, claim scope may be construed by a court to be broader or narrower than intended, which may include or eliminate inventors. Thus, patent attorneys must be cautious to ensure that the inventors review the application, including the claims, and that the client confirms the initial inventorship naming. Care also must be taken in the drafting of the specification consistent with the claim scope and supportive of the intended claim meaning. The inventorship analysis must also be revisited at the time of allowance of the patent application, in the event substantive amendments were made during examination to confirm or update inventorship. Inventorship can be corrected in the face of errors either during examination, or even after issuance of the patent.

With this in mind, organizations must be careful to put procedures in place and work with patent counsel to develop claim strategies and to ensure correct inventorship, including insisting on full disclosure to patent counsel of any involvement of a potential inventor, including a third-party inventor. Organizations must put aside internal custom and personal desire (such as senior level researchers and executives insisting on their name on a patent when there is no conception of invention) in favor of working with patent counsel to make sure inventorship is accurate and determined without bias or undue influence. Failure to do so renders resulting patents vulnerable in the face of error, which can lead to contractual disputes and breach of warranty under later patent licenses and other collaborative patent agreements.

All inventors are owners, regardless of whether they are employees. Employers must acquire rights from the employee. Ownership will lie with the employer if the employer has an express contract allocating ownership of employee inventions to the employer. Alternatively, employees may be obligated to assign inventions if they were specifically hired to use their inventive talents. Finally, employees may acquire limited "shop rights" to use the employee's patented inventions if an employee who is not hired to invent, and has no express contact, nonetheless uses company resources and time to conceive of and work on an invention.

While courts have found implied contracts to assign patent rights in certain cases, this is typically a disfavored outcome, since it can be seen as discouraging innovation, including when implied rights to assign are based on employee handbooks.

To avoid later disputes, standard employment contracts should clearly set forth what is expected of the employee in terms of patent rights and ownership. For most employees an obligation to assign patent rights for all inventions made during the course of employment should be expressly in the employment contract. People who are hired to invent or to use their "inventive faculties" to enhance a particular business should have clear contract terms to that effect, especially at senior management levels, reflecting the need for that person's skills and the obligation to assign inventions to the employer. Attorneys preparing such agreements should have the agreements reviewed by intellectual property counsel if at all possible to ensure that all the ownership terms are clear, unambiguous and legally correct.

In addition to new employee and third-party inventor contexts, disputes also arise in allocation of ownership and designation of limited patent rights (both exclusive and non-exclusive rights) in licensing, sale of patent properties and joint development, joint venture and other collaborative agreements. For example, agreements exist which merely state that the parties will "share ownership of all patent properties" without more.

Such language does not adequately deal with many potential dispute situations. It does not explain what properties are within the scope of the agreement. Intellectual property, including patent rights, should be clearly defined (including lists of specific properties where applicable). Such language does not say if there are properties that are left out of the agreement. Exempt properties or patents in the relevant area that were developed and owned before the agreement may not be intended as part of ownership "sharing," and the agreement should clearly provide for any specific exemptions.

Improvements made after the term of the agreement by one party based on prior joint, shared development are also not addressed by such vague language. Failure to designate ownership of improvements may allow one party to piggyback on another's efforts and still claim ownership of the improvement, causing inconvenience to, or worse — giving rise to a blocking patent that impacts — the business of the former collaborating party.

The language also does not explain what it means to "share" ownership. It does not say whose obligation it is to pay prosecution expenses, maintenance fees, litigation fees and other costs. By merely reciting "ownership sharing," the language does not explain whether the co-owner is obliged to cooperate in any lawsuits.

Other improper provisions may even go so far as to allocate the right to sue on a patent in a party having no ability to establish standing to sue on the patents (such as non-exclusive licensees). Such drafting arises out of a failure to understand the underlying law and/or to grasp the implications of the agreement language, lack of clear terms and failure to seek review by intellectual property counsel.

Regarding standard agreements, while good practice in the context of patent licensing, employment, and transfers of property, it is important to realize that not all situations fit neatly into such agreements. Further, such agreements, which may be used many times, should be carefully reviewed by all relevant counsel before implementation. They should also be reviewed periodically to ensure continued compliance with current patent law.

All such agreements should be reviewed at some point by counsel to avoid applying them in the wrong context. Prior to signing collaborative agreements with third parties, each party and respective counsel should confer and go through the contract, particularly patent ownership provisions, to confirm clear understanding of the terms before embarking on the relationship. Differences in interpretation can then be avoided before execution.

Thus, while such ownership allocation disputes will always arise on occasion, much can be done to put in place procedures and strategies for dispute avoidance, incurring legal costs that are typically far less significant for careful planning than they are for litigation that results from a failure to act preemptively. •