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Safeguard Design Freedom: Patent Strategy In Corp. Deals

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A primary threat to a company's freedom to develop and commercialize improvements to its core technology can arise from a variety of corporate transactions. For example, a strategic alliance to cooperate in the marketing of complementary offerings can reveal the inner workings of a company's technology to a current partner but future competitor. As another example, calling on the expertise of an original equipment manufacturer to help develop a specific feature of a future product often requires unveiling critical proprietary information to support the effort. Likewise, through an agreement allowing use of installed software or software as a service (SaaS), a company can provide to a customer intimate knowledge about its offerings. In such transactions, access to and focus on the company's technology can engender creation of improvements, whether planned or unplanned.

A permissive allocation of rights to a second party in later-arising improvements to the company's technology can have negative and potentially disastrous consequences for the company. When intellectual property rights, and especially patent rights, in improvements to core technology of the company vest in a partner, OEM, vendor, customer, potential acquirer, or other second party, the company becomes vulnerable to enforcement of such rights by these known entities or an unknown universe of potential assignees.

Liability for damages and injunctive relief resulting from effective enforcement could strip the company of its ability to develop and commercialize advancements in its technology. Accordingly, a company should take precautions and negotiate safeguards in corporate transactions under which improvements, whether intended or not, may be created by either party.

Address Improvements

In corporate transactions where the core technology of the company may be divulged — even in confidence — to others, care must be exercised by the company to secure and maintain intellectual property rights in improvements to the core technology. Securing such intellectual property rights empowers the company to maintain control over the improvements, avoiding their forfeiture to the public domain and resulting free adoption by others. In addition, the company's assumption of intellectual property rights in improvements precludes competing claims by others and thus supports the company's design freedom.

Therefore, the company should ensure that appropriate contractual provisions acknowledge the possibility of improvements, even when their creation is not a primary objective of the transaction. Such provisions need not overreach. They need only contemplate improvements to the company's technology, whether created by the company or the second party.

By contrast, attempts to cover improvements to the second party's technology can be discretionary. The absence of a provision covering improvements to the company's technology would subject the company to the application of undesirable, default intellectual property rules under which the second party, as creator of intellectual property, would be deemed owner.

Just as importantly, contractual provisions should address the allocation of intellectual property rights so that the company assumes control over improvements to its own technology. Balancing the need to close a corporate transaction quickly with the goal of adequate intellectual property protection, a company early on should anticipate and contextualize the issue around improvements. If an improvement by the company to its own technology is contemplated, a contractual provision regarding intellectual property ownership drafted in favor of the company can be a simple negotiation.

However, if an improvement by the second party to the company's technology is contemplated, the same contractual provision could be much more difficult to achieve. If such difficulty arises during negotiations, the company could propose contractual limitations regarding, for example, the scope of work to be performed by the second party to steer clear of the company's technology where possible, or elimination of the ability of the second party to create improvements at all.

Despite these limitations, the second party still could unintentionally or deliberately create improvements. Accordingly, an assignment from the second party to the company is preferable. If the second party insists on some interest in the improvement, a limited license back to it may be an acceptable compromise in many instances. Ownership of intellectual property rights by the second party could be a possible fallback but only if the company can exercise broad license rights with robust terms regarding exclusivity and confidentiality, as appropriate, to deny competitors.

Effective Chain of Title

With patent rights in particular, ownership as a matter of U.S. law normally vests in the inventor. Until the inventor accedes to an affirmative grant transferring them away, such rights will remain with her. Such a grant most often appears in an employment related agreement generally transferring all intellectual property rights to her employer. In an analogous manner, until the second company grants patent rights in improvements that it creates to the company, those rights will remain with the second company.

An effective grant of intellectual property rights in improvements to the company should be more than an expression of the parties' intent. Drafting language in an agreement that states that parties "agree" that the company "will" or even "shall" own rights in improvements is helpful. However, such language, as popular as it is, likely will not effect the intended transfer from the second party to the company.

Accordingly, the company should ensure that it benefits from adequate patent transfer language. The company should insist on proper, affirmative grant language in the present tense to ensure an assignment of patent rights from the second party. Perhaps just as importantly, the company should consider a contractual provision, such as a warranty, that all personnel of the second party connected to performance under the transaction between the company and the second party — and thus likely candidates to invent improvements — have properly conveyed their potential patent rights to the second party.

Mirroring analogous confidentiality clauses, such a provision recognizes that traditional employees under typical proprietary information and invention agreements with their employers are no longer the sole paradigm by which companies leverage talent. Accounting for the possibility of other types of personnel of the second party, such as hourly consultants and independent contractors, the provision helps to ensure an unbroken chain of title effectively conveys to the company all desired intellectual property rights in improvements.

Duty to Notify

Because the creation by others of improvements to the company's technology raises critical issues, it is vital to know about them. Personnel of the second party assuming day-to-day responsibilities in the relationship with the company may default to their own corporate behavioral norms and seek patent protection on their improvements to the company's technology on behalf of the second party. Corporate policies may not only encourage this conduct but also incentivize it. As a result, patent counsel of the second party to whom the improvement has been disclosed may be the first to recognize the improvement as a candidate for patenting and, mindful of best practices under the new priority regime of the America Invents Act, first to file a patent application thereon.

Possible publication of the patent application 18 months later could be the first opportunity for the company to know about its existence. Later knowledge could come to the company upon patent issuance or, worse yet, through an enforcement campaign based on the patent.

In view of these considerations, the company should consider a contractual provision requiring the second party notify the company upon creation of any improvement to the company's technology. The obligation should be triggered whether or not such creation is allowed under the operative agreement. Even if the second party does not seek intellectual property rights on an improvement, the company will need to know about the improvement to secure patent rights on it. Such notice should be provided promptly so that the company can take timely, responsive measures before the patent statute renders potential rights forfeited.

Further, the company should consider an additional obligation on the second party to notify the company of any patent applications filed by the second party in the field of technology that relates to the work performed under the transaction. Such a provision would potentially uncover any patent applications on improvements to the company's technology, even if the second party in good faith but mistakenly believes that an improvement is not related to the company's technology. The obligation can be bounded by the field of technology so that potentially germane patent applications on improvements can be identified without subjecting the company to notice of irrelevant patent assets that later on could support a charge of patent infringement liability or willful infringement.

Conclusion

Inadequate contractual provisions regarding improvements in corporate transactions pose significant risk to a company's future. Failure to negotiate and secure appropriate patent rights to improvements in the company's core technology relinquishes control to others, including current or future competitors, with the ability to exact damages and injunctive relief. Such legal vulnerability can paralyze a company in a competitive marketplace demanding technological agility and advancement. To help safeguard it from competitive threats, a company should secure patent rights in improvements to its technology through important contractual provisions in corporate transactions.

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