Client Alert: Employment Agreements must 'Presently' Assign IP Rights

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The U.S. Court of Appeals for the Federal Circuit recently addressed IP assignment clauses in employment agreements. In *Advanced Video Techs. LLC v. HTC Corp.*, Nos. 16-2309, 16-2310, 16-2311 (Fed. Cir. Jan. 11, 2018), the Court affirmed a district court decision that the ambiguous language of an employment agreement did not support a "present assignment" of IP rights to the company.

The dispute involved ownership of U.S. Patent No. 5,781,788, which named three co-inventors, all employed by Infochips Systems, Inc. at the time of invention. The '788 patent is a continuation of a prior patent application filed by AVC Technology Inc., who acquired Infochips' assets through a transfer agreement. Only two of the co-inventors assigned their patent rights to AVC. To establish ownership of the patent application resulting in the '788 patent, AVC filed a petition with the USPTO, supported in part with the employment agreement with Infochips for the non-assigning co-inventor. The USPTO granted AVC's petition allowing it to prosecute the patent applications without the non-assigning co-inventor.

AVC later dissolved and its interest in the '788 patent was ultimately transferred to the plaintiff, who sued the defendant in district court alleging infringement of the '788 patent. In the district court proceeding, the plaintiff argued that it acquired the non-assigning co-inventor's patent rights via her employment agreement with Infochips and subsequent conveyances. The district court disagreed and dismissed the suit for lack of standing because the non-assigning co-inventor was not a party to the suit.

On appeal, the Federal Circuit analyzed the employment agreement, which included a trust provision, a "will assign" provision, and a quitclaim provision as follows:

> I agree that I will promptly make full written disclosure to the Company, **will hold in trust** for the sole right and benefit of the Company, and **will assign** to the Company all my right, title, and interest in and to any and all inventions … which I may solely or

> jointly conceive or develop or reduce to practice … during the period of time I am in the employ of the Company.
>
> …
>
> I hereby waive and **quitclaim** to the Company … any patents, copyrights, or mask work rights resulting from any such application assigned hereunder to the Company.

(emphasis from opinion). The Court agreed with the district court's finding that these provisions were ineffective to transfer the non-assigning co-inventor's patent rights to the company and, therefore, the plaintiff never obtained title to the same.

With regard to the trust provision, the plaintiff argued that the provision created an immediate trust under California law in favor of Infochips. The Court rejected this argument noting that even if an immediate trust was created, the '788 patent would still be held in such trust as there is no evidence that the non-assigning co-inventor ever transferred it from that trust to Infochips. The Court further noted that under California trust law a trust beneficiary generally is not the real party in interest, may not sue in the name of the trust, and has no legal title or ownership interest in the trust assets. Consequently, even if the '788 patent was held in an immediate trust, the plaintiff constituted a trust beneficiary that could not maintain an infringement suit where the non-assigning co-inventor was not a party.

With regard to the "will assign" provision, the Court determined that the language did not create an immediate assignment. Rather, the language merely invoked a promise to assign in the future, and the presence of the trust provision in the employment agreement supports this interpretation since the non-assigning co-inventor could not immediately assign the rights and simultaneously hold them in trust.

Lastly, with regard to the quitclaim provision, the plaintiff argued that the language should apply to any patent rights that could have been assigned under the employment agreement, or that the phrase "assigned hereunder" should mean "assignable hereunder." The Court disagreed and instead interpreted the quitclaim provision to apply to patent rights that the non-assigning co-inventor had *actually* assigned. Under this interpretation, the Court held that the quitclaim provision did not apply because no patent rights were ever assigned.

Practice Note: Employers should ensure that their employment agreements include a ***present assignment*** of IP rights rather than a promise to assign in the future. Even with properly drafted employment agreements, however, employers should have their inventor-employees assign their rights to the company via a formal assignment for each new IP development.