

# THE DAILY RECORD

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## IP FRONTIERS

### Licensing creations of the human mind

The chief concern of intellectual property law is providing protection for the intangible creations of the human mind.

The interface between creativity and law often leads to the commercialization of the “idea” in order to further business objectives. One manner by which those ideas are commercialized is by execution of agreements, enabling one company to use or acquire another’s technology or idea. The legal instruments typically seen when such intellectual property assets are “traded” are licensing agreements and assignments.

License agreements between parties typically contain language associated with the right to make, use or sell a product covered by a patent, whereas assignments transfer the actual ownership interest in IP from one party to another.

A number of recent cases have been decided by the U.S. Court of Appeals for the Federal Circuit that have direct bearing on such agreements. In many of the cases, the lawsuits highlight the importance of avoiding ambiguous language.

In *Nova Chemicals Inc. v. Sekisui Plastics Co. Ltd.*, Nova signed a contract in 1983 allowing it to use Sekisui’s process for the production of Piceolan (a Styrofoam-like product) and to sell the products anywhere except for within certain Asian countries.

Nearly 20 years later, NOVA started selling the disputed product in Asia, and Sekisui sued for breach of contract. One key issue related to the fact that the subject patents of the contract had expired before NOVA began selling in Asia. The court stated, “In granting summary judgment in favor of NOVA, the District Court determined that, based on the plain language of the License Agreement, all of its terms expired in 1995.”

The court also found that “if NOVA would otherwise have a legal right to sell Piceolan products in Asia absent the License Agreement, then the license cannot deprive it of that right.”

NOVA, therefore, had no continuing obligation to Sekisui because the patents already had expired. To make matters worse for Sekisui, during the negotiation process and during the term of the license, certain trade secrets and other confidential information were shared with NOVA. Because the subject patents expired, the

court found that the license, as well as its confidentiality provision, had no continuing force and NOVA was not required to keep confidential any information previously disclosed to it during negotiations.

#### Lesson

The decision to disclose trade secrets or other non-protected confidential information during licensing negotiations should be considered carefully. Disclosure likely will have consequences once the patents at the center of a license agreement expire.

In *Euclid Chemical Co. v. Vector Corrosion Technologies Inc.*, a sole inventor had assigned five patents and patent applications to Vector, each of which were listed specifically in the text of the Assignment. At issue was a sixth patent — U.S. Patent No. 6,217,742, AKA the ‘742 patent — which was a continuation-in-part of one of the specifically listed properties.

The CIP issued at the time the assignment was executed by the inventor, yet it was not listed explicitly as one of the properties to be assigned. The language of the assignment, however, called for the assigning of the five listed properties and “any and all

divisional applications, continuations, and continuations in part” resulting from those properties.

Vector argued that, because the ‘742 patent was a CIP of a patent listed specifically listed in the assignment, and the language of the assignment called for a CIP of a listed patent also to be assigned, Vector was the owner of the ‘742 patent.

Euclid disagreed, arguing the ‘742 patent had issued before the execution of the assignment and would have been listed specifically if it was to be included as a property to be assigned. The CAFC, in reversing the district court’s decision, agreed with Euclid. The assignment document stated that it assigned all interest in the inventor’s “U.S., Canadian and European applications for patents and issued U.S. patent.” The court found that, had Euclid meant for the already-issued ‘742 patent to be included in the assignment, the statement would have indicated multiple issued U.S. patents. Because the assignment language was

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ambiguous under Ohio contract law, the CAFC remanded the case to the district court.

### Lesson

Listing all intellectual property to be included in an agreement clearly and non-ambiguously is advisable, as is editing out any inconsistent language, which can open an agreement to unintended interpretation.

In *Epistar Corp. v. International Trade Commission and Lumileds*, Lumileds brought suit against United Epitaxy Co. for infringement against Lumileds's U.S. Patent No. 5,008,718. The case was settled with Lumileds granting UEC a license for the "manufacture, sale and importation of LEDs with absorbing substrates" in return for a payment and royalty stream.

A few years later, Lumileds sued Epistar Corp. for patent infringement against the same patent. Again, Lumileds settled, in this case for a large one-time payment in return for Epistar's ability to manufacture absorbing-substrate LEDs. Epistar also agreed to challenge only the validity of the patent if Lumileds brought an infringement suit against Epistar at a later date.

About 18 months later, Lumileds did bring a suit, against both UEC and Epistar for importation of certain LEDs related to the '718 patent. A month later, UEC merged into Epistar, and Epistar agreed to assume all UEC assets, risks and obligations, including lawsuits.

Lumileds argued UEC's merger with Epistar barred Epistar from bringing an invalidity challenge of the patent for not only UEC's product (per the agreement), but also for Epistar's own products. The court disagreed, ruling that the Lumileds/Epistar settlement agreement "preserved Epistar's right to challenge validity with respect to Epistar products."

### Lesson

IP agreements ought to be considered carefully in the context of mergers and acquisitions, as obligations and rights of parties may be greatly affected.

In *SiRF Tech. Inc. v. International Trade Commission*, an inventor (Abraham) conceived of an invention while working for a company called Ashtech Inc., which was a predecessor to Magellan Corp. The inventor had signed an employee inventions agreement, which assigned "all inventions ... which are related to or useful in the business of the Employer...and which were ... conceived ... during the period of the Employee's employment, whether or not in the course of the Employee's employment," to

Ashtech.

The court determined Magellan obtained rights to the Ashtech agreement upon the merging of the companies. The inventor subsequently left Magellan and moved to Global Locate, where he and a colleague applied for a patent based on the earlier conceived idea. That patent was assigned to Global Locate. The court decided that the employment agreement constituted an automatic assignment, which stated that "[t]he Employee assigns all of his or her right, interest, or title in any Invention to the Employer to the extent allowed by law"; because of this language, the Employee had to do nothing further to grant rights to the company.

Because the Global Locate assignment was recorded with the USPTO, the court found that created a "presumption of validity" of the assignment that someone must rebut if they believe the invention has been assigned in error. The court indicated Magellan had not previously challenged the validity of the Global Locate assignment even though it seemingly had several opportunities to do so during earlier trade secret litigation.

"If Magellan and Abraham recognized that Global Locate was the owner of the trade secret rights to the invention, it logically follows that Magellan and Abraham did not think that Magellan was the owner of similar rights that eventually became the subject of the '346 patent," the court stated.

### Lesson

The circumstances underpinning conception of an invention are important, especially when an employee has worked on similar technologies with previous employers. Drafting assignment provisions in employment agreements in the present tense also is recommended. While an employment agreement assigning inventions is useful for proving ownership, executing and recording an assignment with the U.S. Patent and Trademark Office is common practice, and is recommended.

Protecting and transferring intellectual property enables parties to "trade" the commodity. Often, legal instruments in the form of IP licenses or assignments are used to facilitate the exchange of rights or ownership of state-of-the-art technology.

Avoiding pitfalls in drafting such agreements or identifying weaknesses in existing agreements is important for any entity, non-academic or otherwise, attempting to commercialize a given "creation of the human mind."

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