

# Client Alert

July 2012

## Federal Circuit Reminds Us That IP Assignments In Employee Agreements Are Important

The U.S. Court of Appeals for the Federal Circuit recently reminded us of something we all know: employee agreements that include an express assignment of intellectual property are effective. In *Preston v. Marathon Oil Co.*, the Federal Circuit held that an employee agreement stating that an employee “hereby assign[s]” all “Intellectual Property” is an express assignment of rights in future inventions that automatically assign without the need for any additional act. No. 2011-1013, -1026, slip op. (Fed. Cir. July 10, 2012). Employers, particularly in-house counsel, should therefore ensure that their respective companies’ employee agreements include a similar express assignment of intellectual property.

The facts of the *Preston* case are similar to the typical scenario often encountered by in-house counsel. Yale Preston signed two documents when he agreed to work for Marathon Oil’s wholly owned subsidiary Pennaco Energy, Inc. First, Preston signed an offer letter indicating he was being hired “under the policy of ‘employment at will’ whereby [Preston] or the company is free to terminate the employment relationship at any time and for any reason without cause or liability other than as prescribed by law.” Preston then began working for Marathon. Less than a month later, Preston executed a “Marathon Oil Company and Subsidiaries Employee Agreement.” Marathon did not provide any additional consideration to Preston for signing the employee agreement beyond his continued employment by Marathon.

The employee agreement included three provisions relevant to the case: (1) a definition of “Intellectual Property”; (2) a disclosure and assignment of intellectual property; and (3) a disclosure of previous inventions and writings.

The employee agreement defined “Intellectual Property” as follows:

“Intellectual Property” means all inventions, discoveries, developments, writings, computer programs and related documentation, designs, ideas, and any other work product made or conceived by EMPLOYEE during the term of employment with MARATHON which (1) relate to the present or reasonably anticipated business of the MARATHON GROUP, or (2) were made or created with the use of Confidential Information or any equipment, supplies, or facilities of the MARATHON GROUP. Such property made or conceived by EMPLOYEE (or for which EMPLOYEE files a patent or copyright application) within one year after termination of employment with MARATHON will be presumed to have been made or conceived during such employment.

The disclosure and assignment of intellectual property provision stated:

EMPLOYEE agrees to promptly disclose to MARATHON and does hereby assign to MARATHON all Intellectual Property, and EMPLOYEE agrees to execute such other documents as MARATHON may request in order to effectuate such assignment.

Lastly, the disclosure of previous inventions and writings provision stated:

Below is a list and brief description of all of EMPLOYEE'S unpatented inventions and unpublished writings. MARATHON agrees that such inventions and writings are NOT Intellectual Property and are NOT the property of MARATHON hereunder. If no listing is made, EMPLOYEE has no such inventions or properties.

Under the previous inventions and writings provision, Preston wrote "CH<sub>4</sub> Resonating Manifold." CH<sub>4</sub> is the chemical formula for methane. Throughout the case, the parties disputed whether "CH<sub>4</sub> Resonating Manifold" referred to the claimed inventions in the two patents at issue in the case.

The patented technology related to a baffle system used to extract methane gas from water-saturated coal in a coal bed methane gas well. At trial, the parties disputed the extent to which Preston developed the baffle system before working for Marathon. While Preston offered inconsistent testimony as to when he first thought of the idea, there was no dispute that Preston never "made" the invention (i.e., physically constructed the baffle system) before joining Marathon. Preston's best evidence was his testimony that he drew a handful of sketches before joining Marathon. However, he also claimed that he misplaced these hand-drawn sketches. The district court did not find Preston's testimony credible.

Marathon installed Preston's baffle system in several wells beginning in 2003. Preston personally participated in some of the installations and was unaware of others. Marathon removed the baffles in all the wells between the end of 2003 and May 2006.

Soon after installation of Preston's baffle system, a purported coinventor (the district court found that Preston was the sole inventor of the baffle system) initiated Marathon's internal patenting process. The district court found that Preston knew that the invention was going through Marathon's patenting process.

About two months after Preston's employment ended with Marathon, in June 2003, Preston filed his own patent application covering the baffle system. That application ultimately issued in November 2005 as U.S. Patent No. 6,959,764. On June 14, 2004, Marathon also filed its own patent application covering the baffle system. That application ultimately issued in April 2007 as U.S. Patent No. 7,207,385.

Following several summary judgment motions and a bench trial, the district court entered several judgments. Among other things, the district court declared Marathon the owner of the two patents pursuant to Preston's employment agreement.

On appeal, the Federal Circuit boiled the ownership dispute between Preston and Marathon down to two key issues: (1) whether Preston's employee agreement was valid and enforceable and (2) if so, whether Preston assigned his rights to the baffle system under the employee agreement.

To determine the validity and enforceability of the employee agreement, the Federal Circuit certified the following question to the Wyoming Supreme Court: under Wyoming law, does continuing the employment of an existing at-will employee constitute adequate consideration to support an agreement containing an intellectual property assignment provision? Preston argued that the offer letter constituted an express, written employment agreement that embodied the terms of his employment and that the employee agreement was not a valid, enforceable modification of the terms in the offer letter absent additional consideration beyond continued employment.

The Wyoming Supreme Court ruled that additional consideration beyond continued employment is not necessary to support an intellectual property assignment agreement. In so doing, the

Wyoming Supreme Court distinguished intellectual property assignments from non-compete agreements, acknowledging that “there is a fundamental difference between noncompetition agreements and intellectual property assignment agreements.” In ruling that additional consideration was not required to modify an at-will employment agreement to include an intellectual property assignment, the Wyoming Supreme Court also noted that “[i]f the employee does not agree to that modification of terms of his employment, he can terminate the relationship without any penalties.”

In view of the Wyoming Supreme Court’s ruling, the Federal Circuit affirmed the district court’s finding that the employee agreement was valid and enforceable. The Federal Circuit then reviewed whether the employee agreement functioned to assign Preston’s invention to Marathon.

Preston argued that the employee agreement did not assign the baffle system invention to Marathon because it was not “Intellectual Property” as defined by the employee agreement. The Federal Circuit rejected this argument, finding that the definition’s plain language indicated that any “invention” that was “made **or** conceived” by Preston while employed at Marathon constituted “Intellectual Property.” Thus, if Preston’s invention was not both made **and** conceived before his employment, it constituted “Intellectual Property.” Preston only argued that he conceived of the baffle system before beginning his employment. Indeed, there was no dispute that Preston did not make the invention before his employment. Thus, the Federal Circuit found that the inventions claimed in the two patents are properly included as “Intellectual Property.”

Preston also argued that he excluded the baffle system invention from the employee agreement when he disclosed “CH<sub>4</sub> Resonating Manifold” as a prior invention. To support this position, Preston claimed that “Prior Inventions” was not limited to patentable inventions. Rejecting this argument, the Federal Circuit found that an invention necessarily requires at least some definite understanding of what has been invented. Because Preston had “at most, little more than a vague idea before his employment with Marathon began,” the Federal Circuit ruled that Preston did not exclude the baffle system invention from the employee agreement. Thus, the Federal Circuit held that Preston’s employee agreement, which “ ‘hereby assign[s]’ all ‘Intellectual Property,’ [] is an express assignment of rights in future inventions that automatically assign[] rights to Marathon without the need for any additional act.”

The *Preston* case reminds us that properly drafted employment agreements are useful tools for corporate protection of intellectual property. The *Preston* case also illustrates how intellectual property disputes arising out of employment agreements can be bound up with state law issues. We therefore advise companies to (1) review their employment agreements to ensure that they contain proper intellectual property assignment provisions and (2) have an understanding of the state contract laws that may control their employment agreements.

## Contact

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