Whose IP Is It Anyway?

Negotiating Intellectual Property Rights Ownership Between Businesses and Their Contractors

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This is the first of two columns that explore how high-tech businesses can avoid disputes over ownership of intellectual property rights. This first column examines IP rights ownership in connection with high-tech contractors and contractees; the second will address such ownership in the context of joint development projects.

The contractor-contractee symbiosis is an important survival mechanism for companies in the high-tech business world. In the optics industry, the widespread availability of custom optics manufacturers makes the outsourcing of optical systems a sensible option.

When a business engages in such outsourcing, the contractor often generates intellectual property (IP) by solving technical problems during the job. The question of who actually owns such IP—contractee or contractor—sometimes becomes contentious, particularly in situations like the following hypothetical (and not uncommon) scenario.

GargantuScreen and N.E. Lens

GargantuScreen Inc., a maker of large rear-projection televisions, is looking to develop and sell a new very large projection television called the “GargantuView,” which offers unprecedented clarity from virtually any viewing angle. Unfortunately, GargantuScreen does not have a projection lens that can do the job.

GargantuScreen’s president, Mr. Ray Tewbliss, contacts N.E. Lens Co., whose ad in Optics & Photonics News boldly claims that they can build any lens.

Tewbliss gets in touch with the president of N.E. Lens, a Mr. Ken Du. After listening to Tewbliss describe the requirements for what he calls the “G-lens,” Du says without hesitation, “Can do! We’ll send over our standard contract so we can get going.”

Du faxes Tewbliss the N.E. Lens standard contract with the appropriate blanks filled in. The contract is silent regarding IP rights and states that N.E. Lens will design and build the “G-lens” that performs to GargantuScreen’s stated requirements, and provide a working prototype. If satisfied, GargantuScreen will place orders on an ongoing basis as needed. After some back-and-forth between Tewbliss and Du on delivery terms, minimum orders and costs, the contract is signed.

Dr. Nicole Prism, chief lens designer at N.E. Lens, gets right to work on the G-lens. After overcoming several difficult design issues, N.E. Lens makes and delivers a satisfactory prototype. N.E. Lens then starts delivering the lenses per the contract. The GargantuView is met with huge success, N.E. Lens starts making good money, and corporate bonhomie abounds.

Let the games begin

Then one day GargantuScreen decides to have the G-lens built less expensively overseas. Also, GargantuScreen is contacted by a company that wants to make and use the G-lens for a non-competitive imaging application, and GargantuScreen plans to license the technology to them.

Meanwhile, N.E. lens has applied for and received a U.S. patent on the G-Lens with Dr. Prism as the inventor. Further, a competitor of GargantuScreen, a company called MegaDisplay Inc., has contacted N.E. Lens and wants to buy large numbers of G-lenses.

Tewbliss calls Du to thank N.E. Lens for their work and to end the contract. During the conversation, the two companies reveal to one another each of their plans for the G-lens. Furious that N.E. Lens has patented the G-lens,
Tewbliss exclaims, “We paid you to build and design the lens. We therefore own the patent rights!” Du calmly but firmly replies, “I’m sorry, but you hired us to build and sell you lenses, and that’s what we did. Our Dr. Prism invented the lens. We therefore own the patent rights.”

Tewbliss responds, “At the very least we’re co-inventors because we provided the lens requirements to you. We can have the lens built by another manufacturer, but you can’t go making and selling the G-lens to anyone other than us!”

“Again, I am sorry to disagree,” says Du, “but you can only use G-lenses made and sold to you by us. Moreover, there is nothing in the contract that prevents us from selling the G-lens to others.” After more back and forth to no avail, Du and Tewbliss angrily hang up, each convinced the other is wrong.

Resolving the IP ownership question
Who actually owns the IP rights to the G-lens? Since the contract is silent as to IP rights ownership, N.E. Lens does. Providing a contractor with requirements that the product must meet (as opposed to providing the actual design) does not constitute a contribution to inventorship for a patented invention. The work-for-hire argument (“We paid you to do it so it’s ours”) carries weight in contractor situations involving copyrights, but not patent rights.

Without language in the agreement to the contrary, IP rights ownership is generally retained by the contractor-inventor. The contractee is left to argue for implied rights (e.g., implied contract or implied confidentiality) or to rely on one of a number of so-called equitable legal doctrines (e.g., quasi-contract, unjust enrichment and promissory estoppel) to convince a court to grant retrospectively the IP rights that it failed to preserve in writing. However, success under implied or equitable legal doctrines is often an uphill battle because it relies on special facts and circumstances, as well as a willingness to absorb significant legal costs to have the court sort out conflicting views.

The IP-savvy contractee will at least seek limits on the contractor-owned IP to prevent its use from benefiting a competitor.

When the contractee provides the IP
What if GargantuScreen provided N.E. Lens with the complete G-lens design specifications rather than relying on N.E. Lens to invent the lens? In this situation, the default is that N.E. Lens would not acquire any rights to the G-lens other than certain implied rights needed for it to make the lens for GargantuScreen.

For example, if GargantuScreen had a patented design for the G-lens, N.E. Lens would not be considered an infringer of the patent by making G-lenses for GargantuScreen.

On the other hand, N.E. Lens would be an infringer if it made and sold G-lenses to a third party or used the lenses themselves without permission from GargantuScreen.

Agreement options
In a typical contractor-contractee situation where IP may be developed by the contractor, IP rights ownership is negotiated. The usual options are: (1) One party owns all the IP rights, while the other owns none; (2) One party owns all IP rights but licenses back some or all of them to the other; (3) Both parties jointly own the IP rights; (4) The parties divide up the IP rights, and optionally cross-license so that each can use the IP of the other. The particular negotiated outcome depends mainly on the business needs of the parties, their respective bargaining positions, the scope of work to be performed, the product to be delivered, and the payment terms.

Not every contractee wants to own the IP rights. Some simply want unfettered use of the contracted products. This allows the contractee to avoid having to pay for the IP rights, and the attendant burden of the ongoing costs associated with maintaining and enforcing them.

Also, some contractors want to own the IP rights because they rely on the future use of such rights to recoup the costs of developing the contracted product. Here, the IP-savvy contractee will at least seek limits on the contractor-owned IP to prevent its use from benefiting a competitor.

Summing up
The key to understanding IP rights ownership in the contractor-contractee relationship is to recognize that there are actually two deals on the table. The first is for the product per se, and the second is for the underlying IP rights. When making the latter deal, businesses need to take into account the potential value of the IP. The ownership of IP rights is then negotiated and set forth expressly in a written contract that governs the relationship. Taking the time to properly address IP rights issues will go a long way toward preventing a symbiotic business relationship from becoming an antagonistic one.

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