INTELLECTUAL PROPERTY OWNERSHIP ISSUES IN THE OILFIELD SERVICES INDUSTRY

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Introduction

The oilfield services business has a long and storied history as a technology business. While trademarks and to a lesser extent copyrights may be relevant to legal issues in the energy exploration and production businesses, the key forms of intellectual property in the oil-patch have been patent and trade secret protection.

I. Intellectual Property

As an initial matter, it is important to distinguish between intellectual property (e.g., patents, trademarks, copyrights, and trade secrets) and the embodiments of intellectual property, such as drawings, prototypes, software programs, and the like). It is the intellectual property right on which a cause of action can be brought. Unlike these embodiments or real property, intellectual property is intangible and considered personal property.

In addition, intellectual property can be divided into statutory or public rights, such as patents, copyrights, and trademarks, and trade secrets, which are based on in personam rights (e.g., a breach of confidentiality or a tort based on improper means of accessing the information). Trade secret laws are based on state law. (Recently, Texas adopted the Uniform Trade Secrets Act, which will apply to all causes of action arising after September 1, 2013.) Patents and copyrights are exclusively federal rights, see 35 U.S.C. §§ 1 et seq. (patent laws) and 17 U.S.C. §§ 1 et seq. (copyright laws), and while rights in trademarks arise under state law, the federal statute, the Lanham Act, 28 U.S.C. 1 et seq., greatly expands these rights beyond the common law trademark rights.

II. Ownership

Ownership of intellectual property arises when an individual or group of individuals invents (conceives and/or reduces to practice), develops, or authors the particular subject matter of the intellectual property. For example, if a single individual conceives and reduces to practice an invention regarding a drill bit, then the individual owns the patent issuing that covers that invention.

Of course, most inventions or trade secrets are invented or developed by legal entities through their employees. Under the common law, if the individual is hired to invent and invents the patentable subject matter in the scope of his employment, the employer owns the invention. Typically, however, this issue does not arise because most companies require the individual to sign an assignment of invention and confidentiality agreement assigning all right, title, and interest in all inventions made in the scope of employment. From time to time, start-up companies do not have legal controls in place that result in the execution of assignment of invention and confidentiality agreement by all the relevant employees.
III. Joint Ownership of Intellectual Property

Intellectual Property can be jointly owned because the context in which it was created (e.g., joint inventorship or joint authorship) or because of a conveyance of a joint interest in the intellectual property. A key point is to appreciate that the different types of intellectual property rights have different rules as to the rights of joint owners.

A. Joint Ownership of Trade Secrets.

If two or more individuals jointly create or conceive a trade secret, state law generally holds that the idea/information is jointly owned by the two individuals.\(^1\) There are also circumstances where a trade secret created or conceived by one individual is ultimately owned by more than one person or entity. For example, assume that the individual who created the trade secret dies and his rights in the idea are inherited jointly by two or more heirs; in such situation, the heirs will become joint owners of the trade secret. Similarly, if the trade secret is created by one partner or joint venturer in the scope of performing partnership or joint venture duties, generally the trade secret is held to be partnership or joint venture property and, as a result, jointly owned by each partner or joint venturer. Finally, sometimes contracting parties agree that any trade secret created or conceived by either of them during the contractual relationship, whether individually or jointly, will be jointly owned or separately owned depending on the nature of the trade secret.

Joint ownership raises a number of issues in the context of trade secrets:

1. Is the joint ownership relationship between joint owners properly characterized as one of tenants-in-common\(^2\) or that of joint tenancy\(^3\)?

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\(^1\) Few states have developed very detailed rules in this area. As discussed below, both the patent and copyright statutes have provisions addressing the rights of jointly owned patents or copyrights.

\(^2\) The prevailing view among the various States is that under the doctrine of tenancy-in-common, upon the death of a joint owner his heirs or legatees acquire his share of the joint work. Most States allow tenants-in-common to contractually agree that their interest in the work shall be treated as a joint tenancy with a right of survivorship, but this relationship is not favored by the law because it deprives heirs of their inheritance so courts require an express written agreement to effect this result.

\(^3\) The prevailing view among the various States is that under the doctrine of joint tenancy, upon the death of a joint owner his share is divided up among the other joint owners, with the last surviving joint owner becoming the owner of the entire work.
2. Can one joint owner publish the trade secret without the consent of the other joint owners?

3. Can one joint owner exploit the trade secret (e.g., practice independently or license for a royalty) without accounting to the other joint owners?

4. Can one joint owner sell or license the trade secret without obtaining the permission or compensating the other joint owners?

5. Can one joint owner license, or grant immunity from suit to, a third party to use the trade secret without the permission of the other trade secret owners?

6. Do all joint owners share equally in the ownership of a joint idea/information even if their respective contributions to the joint work are not equal?

7. If the idea/information is owned by a partnership or joint venture, what happens upon the dissolution of the partnership or joint venture? Does each former partner or venturer have an undivided interest in the idea/information?

Few of these questions are answered by state law. Because there are so many unanswered questions in this area of the law, it is important for joint owners to address these issues in their contracts. Often, rather than addressing the issue of joint ownership, the parties will place ownership with one party, or, will divide the ownership between the parties along functional lines or what are called “fields of use.” The parties will also often allocate the right to sue and collect damages for the trade secrets based on the field of use.

B. Joint Ownership of Patents

When there is more than one inventor, each inventor becomes co-owners or co-tenants or tenants in common of the rights and property secured by the patent. In the case of two joint inventors, each is vested with an undivided half interest in the patent. The Patent Act clearly provides that joint owners of a patent cannot sue each other for patent infringement:

In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners.


All co-owners of a patent must be joined as plaintiffs before an infringement suit may be initiated. Waterman v. MacKenzie, 138 U.S. 252, 255 (1891); Willingham v. Star Cutter Co., 555 F.2d 1340, 1343 (6th Cir. 1977); Switzer Brothers, Inc. v. Byrne, 242 F.2d 909, 912-13 (6th Cir. 1957); Van Orden v. Mayor, Etc., of Nashville, 67 F. 331, 332-33 (C.C.M.D. Tenn. 1895).
Legal title alone determines capacity to sue for infringement; absent full legal title, a joint owner does not have standing to bring or maintain this action. *Arachnid v. Merit Indus., Inc.*, 939 F.2d 1574, 1579 (Fed. Cir. 1991). A mere claim of "equitable" or "prospective" ownership is irrelevant. *Id.* at 1581. The right to sue for infringement is determined at the inception of a lawsuit and the failure to join a co-owner of the patent is a fatal defect which cannot be cured by joining the co-owner during suit. *Switzer*, 242 F.2d at 913 (assignment of title to mere licensee during the pendency of the suit not sufficient to grant jurisdiction).

If there are multiple owners of such rights, each possesses an undivided ownership right to the whole of the right. *See, e.g.*, *Eickmeyer v. Commissioner*, 580 F.2d 395, 400 (10th Cir. 1978). Courts have held that each such undivided owner has the status of a *tenant-in-common*. *See, e.g.*, *Drake v. Hall*, 220 Fed. 95, 96 (7th Cir. 1914). The prevailing view among the various States is that under the doctrine of *tenancy-in-common*, upon the death of a joint owner his heirs or legatees acquire his share of the joint work, while under the doctrine of *joint tenancy*, upon the death of a joint owner his share is divided up among the other joint owners, with the last surviving joint owner becoming the owner of the entire work. The *tenancy-in-common* is much the favored doctrine because it protects an owner's heirs. Most States allow *tenants-in-common* to contractually agree that their interest in the work shall be treated as a *joint tenancy* with a right of survivorship, but this relationship is not favored by the law because it deprives heirs of their inheritance so courts require an express written agreement to effect this result.

Here are several rules regarding joint ownership of patents:

- If the joint ownership results from joint inventorship, do all of the joint inventors share equally in the ownership of a joint invention even if their respective contributions to the joint invention were not equal? Courts have held that if there are multiple owners of such rights, each possesses an undivided ownership right to the whole of the right. *See, e.g.*, *Eickmeyer v. Commissioner*, 580 F.2d 395, 400 (10th Cir. 1978). *See Peter D. Rosenberg, Patent Law Basics*, § 12.03.

- Is the relationship between joint owners of an patentable invention that of *tenants-in-common* or that of *joint tenancy*? Courts have held that each such undivided owner has the status of a *tenant-in-common*. *See, e.g.*, *Drake v. Hall*, 220 Fed. 95, 96 (7th Cir. 1914).

- Can one joint owner sell his interest in the invention without the permission of the other joint owners? Can one joint owner license others to practice the invention idea without the permission of the others? Can one joint owner grant an immunity-from-suit to a third party without the permission of the others? If one joint owner receives revenues from practicing the invention or allowing others to practice the invention, must he account to the other joint owners? The answer is yes. 35 U.S.C. § 262 provides that, "in the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, sell the patented invention within the United States, or import the patented invention into
the United States, without the consent of and without accounting to the
other owners."

If an invention is owned by a partnership or joint venture, what happens
upon the dissolution of the partnership or joint venture? Does each former
partner or venturer have an undivided interest in the invention? If so, all
of the same questions are relevant, i.e., can one former partner practice the
invention or allow others to practice the invention without the permission
of the other joint owners, and, if one former partner receives revenues
from such actions, must he account to the other joint owners?

Again, because there are so many unanswered questions in this area of the law, or
because one may not like the answers that are provided by the law, it is important for partners
and joint venturers to address these issues in their contracts.

C. Joint Works and Jointly Owned Copyrighted Works.

Unlike the few common law principles developed by the courts with respect to the joint
ownership of ideas/information, and unlike the statutory provisions of the Patent Act applicable
to joint ownership of patents and the few common law principles developed interpreting such
statutory provisions, the 1976 Copyright Act specifically addresses joint works and courts have
developed a distinction between a joint work and a jointly owned work.

Section 101 of the Copyright Act defines a joint work as a "work prepared by two or
more authors with the intention that their contributions be merged into inseparable or
interdependent parts of a unitary whole." Section 201(a) provides that the authors of a joint work
are co-owners of the intangible rights of copyright in the work. In order for individuals to be
authors of a joint work, each must have contributed some copyrightable subject matter. If one
contributes an uncopyrightable idea and the other creates the copyrightable expression of that
idea, it is not a joint work. Instead, the copyright in the work is wholly owned by the one
contributing the copyrightable expression. For example, a client who contributed ideas, directed
changes, and exercised approval power at each stage of its architect's work was not an author of
the resulting architectural plans. Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Construc
tion Co., 542 F. Supp. 252, 259 (D. Neb. 1982). (Thus, the party commissioning the architect's work
did not own any of the intangible rights of copyright in the resulting architectural plans under
either the work for hire rules or the joint work rules.) A collective work, i.e., a collection of
independent works such as an anthology or a collection of photographs, is not a joint work. The
copyright in the collection belongs to the entity that selects and arranges the various works in the
collection and does not extend to the individual works contained in the collection that are owned
by third parties (courts have created the rule that the copyright in the collection will extend to
and protect the individual works in the collection that are owned by the entity creating the
collection).

The concept of a joint work under the Copyright Act is different from a jointly owned
work if the joint ownership in the work resulted from anything other than the joint creation of the
work. A jointly owned work that results from a subsequent transfer of a copyright interest in the
work, either by contract or by law, is not a joint work. Although some of the attributes of a
jointly owned work are the same as the legal attributes of a joint work, e.g., in each case the rights and liabilities of the owners parallel the rights and liabilities of real property tenants-in-common, some of the legal attributes are very different. For example, if individuals A and B jointly create a work, the term of the copyright in the work will be the life of the survivor plus fifty years. However, if the work is wholly created by A and then he assigns one-half of his interest to B whereby the work becomes a jointly owned work, the term of the copyright will be simply the life of A plus fifty years and not the life of A or B plus fifty years. Thus, an aged author may not use the ideas contributed by his granddaughter to create a joint work and extend the life of the copyright in the work for the life of his granddaughter plus fifty years.

The Copyright Act itself does not clearly specify the rights and liability of joint owners of a joint work or a jointly owned work. These rights and liabilities have been and are being fleshed out by the courts. House Report 121 on the Bill that became the 1976 Copyright Act states, "There is no need for a specific statutory provision concerning the rights and duties of the co-owners of a work; court-made law on this point is left undisturbed. Under the Bill, as under the present law, co-owners of a copyright would be treated generally as tenants in common, with each co-owner having an independent right to use or license the use of the work, subject to a duty of accounting to the other co-owners of any profits." So, we come to the same questions raised with respect to the rights and liabilities of co-owners of ideas/information and patentable inventions:

- If the joint ownership results from joint creation, do all of the joint inventors share equally in the ownership of a joint work even if their respective contributions to the joint work were not equal? Yes, but this sharing can be altered by contract. See Paul Goldstein, Copyright § 4.2 (2nd Ed.); Nimmer on Copyright, § 6.08.

- Is the relationship between joint owners of a joint work or a jointly owned work that of tenants-in-common or that of joint tenancy? Congress indicated and courts have held that each such undivided owner has the status of a tenant-in-common. Each individual co-owner has an undivided fractional interest in the entire common parcel.

- Can one joint owner sell his interest in the co-owned copyright without the permission of the other joint owners? Can one joint owner license others to practice one or more of the intangible rights copyright without the permission of the others? Can one joint owner grant an immunity-from-suit to a third party without the permission of the others? Yes. each copyright co-owner is entitled to exploit the whole or any part of the jointly owned copyright without the permission of the other co-owners and to allow others to do so without the permission of the other co-owners. See Paul Goldstein, Copyright § 4.2.2 (2nd Ed.); Nimmer on Copyright, § 6.10.

- If one joint owner receives revenues from his use of the intangible rights of copyright or the action of allowing others to utilize the rights of
copyright, must he account to the other joint owners? Unlike 35 U.S.C. § 262 which provides that, "in the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners," courts have held that a joint owner of the copyright in a joint work or a jointly owned work must account to his co-owners for their proportionate share of any revenues received from his own exploitation of the rights of copyright and the revenues he receives from allowing others to exploit the rights of copyright in such work. See Paul Goldstein, Copyright § 4.2.2 (2nd Ed.); Nimmer on Copyright, § 6.12.

Similar to real property law, some courts have indicated that a co-owner of the rights of copyright in a joint work or a jointly owned work must account to his co-owners if he takes some action that destroys the value of the work, such as somehow placing the work in the public domain. See Paul Goldstein, Copyright § 4.2.2.2 (2nd Ed.); Nimmer on Copyright, § 6.10[A].

If a copyright is owned by a partnership or joint venture, what happens upon the dissolution of the partnership or joint venture? Does each former partner or venturer have an undivided interest in the invention? If so, all of the same questions are relevant, i.e., can one former partner exercise the rights of copyright or allow others to do so without the permission of the other joint owners, and, if one former partner receives revenues from such actions, must he account to the other joint owners?

D. Jointly Owned Trademarks

Joint ownership of trademarks is very rare. Typically, a single legal entity owns a trademark and an underlying premise of trademark law is that there is a single source that controls the quality of the goods or services sold under a trademark. It is possible for trademarks can be jointly owned by more than one party; however, any such joint ownership must be carried out with a “unity of control” by the parties and an avoidance of confusion in the marketplace.

The risk of such an approach is that, given the unusual nature of such a joint ownership approach, a defendant accused of infringing one of the jointly owned trademarks should be expected as a matter of course to likely raise the defense that the joint ownership agreement is actually the use and control of a trademark by two separate parties and thus constitutes an “abandonment” of the trademark to the public.
IV. Joint Ownership Issues

A. Employees and Individuals who are Independent Contractors

Because of the foregoing ownership rules, all employers should implement procedures that require their employees to sign assignment of inventions and confidentiality agreements. Similarly, to the extent that they use independent contractors to develop technology or materials, then the hiring party should require the individual contractor to assign any intellectual property developed in the course of the contract that to the hiring party. The major limitation in such an agreement with an independent contractor is the pre-existing intellectual property of the independent contractor. A common practice is to require the independent contractor to schedule his or her pre-existing intellectual property.

B. Service and Supply Agreements

When an oilfield equipment or service provider is developing its technology, it is sometimes necessary to test and thereby develop equipment in a drilling operation managed by a third party drilling contractor and in a well that is owned by another third party. Sometimes, the drilling contractor or the operator or the will seek to own intellectual property arising out of the use of the equipment in the drilling activities. These types of issues will always be a matter of negotiation; however, oil field services companies should be mindful of how broadly these types of provisions may be drafted so as to affect ownership rights in intellectual property that arises out of the drilling operations. At a minimum, the oilfield services company should always exclude any pre-existing intellectual property from any ownership provisions.

C. Third Party Intellectual Property and Indemnity

When an oilfield services company provides equipment or services to a customer, the customer will often seek to include an agreement to defend and indemnify the customer for third party intellectual property claims based on the customer’s use of the equipment or services. In essence, the customer wants to know that a third party does not own the intellectual property being used by the oilfield services company. Again, these are a matter of negotiation, however, at a minimum, the oilfield company should ensure that it has the right to control the defense and any settlement with the third party claimant.