NO. 429PA13 TENTH JUDICIAL DISTRICT

SUPREME COURT OF NORTH CAROLINA

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ROBERT PAUL MORRIS, Plaintiff-Appellee, v. SCENERA RESEARCH LLC and RYAN C. FRY, Defendants-Appellants.	)	From Wake County No. 09 CVS 19678 No. COA12-1481

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AMICUS CURIAE BRIEF OF THE NORTH CAROLINA CHAMBER OF COMMERCE, THE NORTH CAROLINA ASSOCIATION OF DEFENSE ATTORNEYS AND NORTH CAROLINA STATE UNIVERSITY

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ISSUE PRESENTED

Did the Court of Appeals err by ignoring this Court's "hired to invent" precedent, finding it "inapposite," when the doctrine is essential to maintaining North Carolina's competitiveness and continued leadership in the technology sector?

INTEREST OF AMICI

The North Carolina Chamber of Commerce (the "North Carolina Chamber"), the North Carolina Association of Defense Attorneys (the "NCADA"), and North Carolina State University ("NC State," together, "Amici") each has a direct interest in ensuring that North Carolina remains a leader in innovation and scientific education and continues to offer a predictable legal environment for new and emerging businesses on the cutting edge of technological advancement.

The North Carolina Chamber is comprised of business organizations throughout North Carolina who have a common interest in promoting and advancing North Carolina's business, industry, and overall economy. The NCADA is an association of civil litigation attorneys who represent business and industry throughout North Carolina. NC State is the largest university in North Carolina, with a history of significant research endeavors and scientific discoveries that have led to over eight hundred inventions, many of which have been transferred to the private sector and have created jobs and economic development in the State of North Carolina.

Amici have a substantial interest in ensuring that North Carolina's employment and contract laws are interpreted in a fair manner that avoids serious harm to our State's economic competitiveness. As explained below, the Court of

Appeals decision in this case departed from this Court's precedent and from the General Assembly's legislative intent. If allowed to stand, the decision will have dramatic negative consequences for our State's economic interests, turning ordinary employment disputes into bet-the-company litigation.

Further, as organizations and institutions with a vested interest in this State's ability to attract and keep business investment and human capital, Amici are in a unique position to brief this Court on the negative impact that the Court of Appeals decision would have on the North Carolina economy if affirmed. Without a firm and stable foundation in law for the ownership of intellectual property, talented researchers and businesses on the cutting edge of technological advancement will choose not to conduct their research here in North Carolina. Moreover, North Carolina businesses will be at a competitive disadvantage in terms of selling their goods or licensing their intellectual property if North Carolina becomes known as a jurisdiction in which employees who are hired to invent can obtain ownership of their employer's patent rights—*nunc pro tunc*—in the event of an employment dispute.

ARGUMENT

THE COURT OF APPEALS DECISION WILL HURT THE STATE'S COMPETITIVENESS IN THE TECHNOLOGY SECTOR

The Court of Appeals decision in this case poses significant risks to our State's competitiveness in the technology sector. North Carolina actively is

transitioning from an economy focused on labor-intensive industries to a knowledge-based economy relying heavily on technological innovation and advancement. *See* N.C. Dep't of Commerce, *Economic Snapshots: Industry Mix* at 1 (May 2014), http://www.nccommerce.com/Portals/47/Documents/Economic%20Snapshots/Industry%20Mix%20May%2014.pdf (last visited 14 February 2015); N.C. Dep't of Commerce, *2011 North Carolina Economic Index* at 1 (June 2011), http://www.nccommerce.com/Portals/47/Documents/2011%20Economic%20Index%20(updated).pdf (last visited 14 February 2015) [hereinafter, "Economic Index"]. Indeed, the nexus between the health of our State's economy and the innovation taking place at research institutions like NC State is now at the forefront of the Governor's economic policy. *See* Governor Pat McCrory, 2015 State of the State Address, http://www.governor.state.nc.us/newsroom/press-releases/20150204/transcript-2015-state-state-address (announcing the "Innovation to Jobs" initiative, and explaining, "Increasing the commercialization of university research and connecting it to our greater economy will create more high-paying jobs.").

Technological innovation begins, of course, with research and development ("R&D") into new technologies. Economic Index at 3. Investments in R&D "increase productivity, boost economic growth, generate new products and processes, and improve the quality of people's lives." *Id.*

The Court of Appeals decision in this case threatens North Carolina's success in attracting and retaining high-tech industries that invest heavily in R&D. For these companies, universities, and research institutions, the threat of losing ownership and control of a key invention or patent simply because of a compensation dispute with one of the scientists or engineers on the research team is profoundly destabilizing.

In other states, that instability is precluded by the hired-to-invent doctrine, which ensures that the employer owns all inventions created by employees who are tasked with R&D work at the company. However, if the Court of Appeals decision in this case stands, North Carolina will no longer protect businesses and universities in this way. The Court of Appeals fundamentally altered this Court's hired-to-invent precedent and made North Carolina the ***one place*** where businesses and universities cannot be sure their inventions are safe. This Court should reverse the Court of Appeals, drawing a bright line between the important wage and hour issues that are appropriately litigated between employers and employees, and the technology ownership issues that are not.

This Court recognized the hired-to-invent doctrine in *Speck v. North Carolina Dairy Found. Inc.*, 311 N.C. 679, 687, 319 S.E.2d 139, 144 (1984). There, the Court explained that when an employee agrees to work "with the view of making an invention, and accepts pay for such work, it is his duty to disclose to

his employer what he discovers in making the experiments, and what he accomplishes by the experiments belongs to the employer." *Id.* Thus, when the employer and employee have agreed that the employee will be paid to invent for the company, the hired-to-invent doctrine operates to automatically convey ownership of any inventions to the employer. *Id.*

Of course, if the employer violates the compensation terms of that agreement, the employee has the right to sue for damages and obtain all the remedies that contract law provides. However, regardless of whether the employer complies with its obligations under the contract, the hired-to-invent doctrine grants the employer ownership of the inventions. The employee's remedies for breach lie in recovering the compensation he is owed, and even in seeking various statutory penalties, but not in gaining control of the inventions.

This rule makes perfect sense in the framework of our legal system. Take, for example, a security officer who daily patrols the floor at a factory that produces components for smartphones. The security officer was not hired to invent, but rather hired to keep the property and personnel at the plant safe. After years of noticing the production line in passing, however, the security officer conceives of a new method of running the line that could increase the efficiency of producing the smartphone components. She has every right to her idea and is free to patent it, to sell it to her own company, or to take it to a competitor who

will make her a better offer. This is perfectly fair; the security officer's inventive talents were never part of the deal for employment struck between her and the employer.

That security officer is a world apart from a scientist hired by the company for the purpose of studying the factory line and developing a more efficient process. The scientist understands that he is being paid for his inventive talents, and that the company will own the resulting invention. In exchange, the scientist bargains for, and receives, fair compensation for his talents as an inventor. As a result, the scientist has no expectation that he would ever own the inventions he creates while on the job. At most, if the employer failed to pay him, he would be entitled to recover that compensation that he is owed, plus interest and, in some cases, additional statutory damages and attorneys' fees. *See* N.C. Gen. Stat. § 95-25.1 *et seq*. This too is fair; the very essence of the employment agreement between the scientist and the company was the exchange of compensation for inventive ideas.

This is a critical point because the most basic principle of contract damages is that they are driven by expectations. "For a breach of contract, the injured party is entitled as compensation therefor to be placed, insofar as this can be done by money, *in the same position he would have occupied if the contract had been performed*." *Perfecting Serv. Co. v. Product Dev. & Sales Co.*, 259 N.C. 400,

415, 131 S.E.2d 9, 21 (1963). "The interest being protected by this general rule is the non-breaching party's 'expectation interest,' and in so doing, the injured party receives the 'benefit of the bargain.'" *First Union Nat. Bank of North Carolina v. Naylor*, 102 N.C. App. 719, 725, 404 S.E.2d 161, 164 (1991) (emphasis added) (quoting Restatement (Second) of Contracts § 344(a) comment a (1979)).

In the hired-to-invent context, the employee never has an expectation of ownership in the inventions. He has bargained away such ownership from the start. Instead, he can only *expect* to be compensated for his work according to the terms of the parties' employment contract. *See Speck*, 311 N.C. at 687, 319 S.E.2d at 144. By holding that the hired-to-invent doctrine is "inapposite" in cases where the employer fails to satisfy the compensation terms of the contract, the Court of Appeals abandoned the fundamental principle that contract remedies are expectation-driven, and replaced it with a system that permits some employees to walk away with far greater rewards than they ever could have expected if the parties both complied with the contract. *Morris v. Scenera Research, LLC*, --- N.C. App. ---, ---, 747 S.E.2d 362, 381 (2013). In effect, the decision permits employees to obtain a tremendous windfall that is not part of the "benefit of the bargain" between the parties.

The Court of Appeals' *post hoc* recalibration of the parties' bargain threatens to destroy the careful balance struck by the General Assembly in the

Wage and Hour Act. By placing intellectual property ownership up for grabs, the decision below gives employees in ordinary compensation disputes the type of "bet-the-company" leverage that often accompanies patent disputes. The Court of Appeals decision would especially hurt small- and mid-sized businesses in North Carolina that own just a handful of patents, which could be forced to close their doors should they ever fall from perfect compliance with the wage and hour law.

That erroneous departure from settled precedent will do great harm to our State's economic competitiveness. As explained above, businesses, universities, and research institutions all rely on the hired-to-invent doctrine to justify considerable expenditures in R&D. This research spending drives the modern high-tech economy. *See* Economic Index at 34-37. The uncertainty created by the Court of Appeals will discourage investment in our State and make it more difficult to attract R&D investment, grant money, and other resources that drive innovation and invention. As a result, our State's research universities, technology centers, and cutting-edge businesses will suffer and become less competitive.

There are likely secondary effects on our State's businesses as well. North Carolina businesses that own intellectual property may derive much if not all of their income through fees obtained from licensing that property to third parties here and abroad. Those third parties commonly rely on the representations of the

licensor that it indeed owns the property under license. The same goes for third parties buying goods from North Carolina companies that are subject to patent rights. With the intellectual property ownership rights of a North Carolina company indefinitely subject to collateral attack through a wage and hour dispute, however, the business community will be much more wary of doing business with North Carolina companies, lest they subject themselves to the possible infringement claim that lurks behind every deal in our State.

The organizations composing the Amici are deeply concerned by the potentially far-reaching, unintended, and negative effects of the Court of Appeals decision. Indeed, the opinion of the Court of Appeals will prove particularly detrimental to this State's universities and colleges, which in many instances are at the forefront of research and development. Research institutions like NC State are agents of innovation that account for successes in North Carolina's ability to attract businesses to the State. Any erosion of the "hired to invent" doctrine threatens that success. Businesses will not locate in the State if they are uncertain about their ownership rights in inventions that form the core of their business. More importantly, NC State, just like most other non-profit research institutions, relies upon federal research funding to support the kinds of long-term persistent research endeavors that lead to technological breakthroughs. Federal law requires university recipients of federal research funds to own any inventions made by

employees in the course of conducting funded research so that the university can ensure the transfer of inventions to the private sector and the return of royalties to support research at the institution. *See, e.g.*, 2 C.F.R. § 200.315. If the law of North Carolina is interpreted to allow employee patent assignments to be nullified by the breach of an employment contract, institutions like NC State may be in jeopardy of failing to comply with federal contract and grant requirements and could lose a substantial funding source.[1]

CONCLUSION

For the foregoing reasons, the decision of the Court of Appeals should be reversed.

Respectfully submitted this the 19th day of February 2015.

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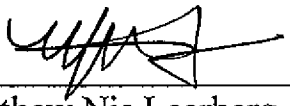
[1] *Amici* also agree with Defendants' related argument that the availability of this monetary remedy should have precluded the Court of Appeals from permitting rescission under long-standing contract law precedent regarding rescission. *See Wilson v. Wilson*, 261 N.C. 40, 43, 134 S.E.2d 240, 243 (1964).



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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing AMICUS CURIAE BRIEF OF THE NORTH CAROLINA CHAMBER OF COMMERCE, THE NORTH CAROLINA ASSOCIATION OF DEFENSE ATTORNEYS AND NORTH CAROLINA STATE UNIVERSITY was served by depositing a copy of the same with the United States Postal Service, affixed with proper first-class postage, addressed as follows:

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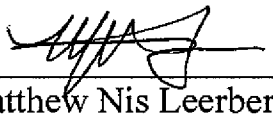
This the 19th day of February 2015.



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