

CONTRACTS AND OBLIGATIONS

CHAPTER 134

SENATE BILL NO. 2465
(Senator Holmberg)
(Representative Hamerlik)

INVENTION DEVELOPMENT

AN ACT to provide for regulation of invention development services.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF THE
STATE OF NORTH DAKOTA:

SECTION 1. Definitions. As used in this Act, unless the context otherwise requires:

1. "Contract for invention development services" includes a contract by which an invention developer undertakes to develop or promote an invention for a customer.
2. "Customer" means any individual who is solicited by, inquires about, seeks the services of, or enters into a contract with an invention developer for invention development services.
3. "Invention" includes a process, machine, manufacture, composition of matter, improvement upon the foregoing, or a concept.
4. "Invention developer" means any person, and the agents, employees, or representatives of the person, that develops or promotes or offers to develop or promote an invention of a customer in order that the customer's invention may be patented, licensed, or sold for manufacture or manufactured in large quantities, except the term does not include:
 - a. A partnership or corporation when all of its partners, stockholders, or members are licensed by a state or the United States to render legal advice concerning patents and trademarks, or a person so licensed.
 - b. A department or agency of federal, state, or local government.

- c. A charitable, scientific, educational, religious, or other organization described in section 170(b)(1)(A) of the Internal Revenue Code of 1954.
- d. An entity that does not charge a fee for invention development services.
- e. An entity whose gross receipts from contracts for invention development services do not exceed ten percent of its gross receipts from all sources during the fiscal year preceding the year in which any contract for invention development services is signed.
- f. A partnership or corporation that accepts technology from institutions of higher education and other state and federal research institutions for evaluation and the providing of marketing services.

For the purposes of this subsection, "fee" includes any payment made by the customer to the entity, including reimbursements for expenditures made or costs incurred by such entity, but does not include a payment made from a portion of the income received by a customer by virtue of invention development services performed by the entity.

5. "Invention development services" includes acts required or promised to be performed, or actually performed, by an invention developer for a customer.

SECTION 2. Notice to customers.

1. Every contract for invention development services must be in writing and is subject to this Act. A copy of each fully executed contract must be given to the customer at the time the customer signs the contract.
2. If one or more contracts are contemplated by the invention developer in connection with an invention or if the invention developer contemplates performance of services in connection with an invention in more than one phase with the performance of each phase covered in one or more contracts, the invention developer shall so state in a written statement and shall supply to the customer the written statement together with a copy of each contract or a written summary of the general terms of each contract, including the total cost or consideration required from the customer, before the customer signs the first contract.

SECTION 3. Right of cancellation.

1. Notwithstanding any contractual provision to the contrary, the customer has the unconditional right to cancel a contract for invention development services for any reason

at any time before midnight of the third business day following the date the invention developer and the customer sign the contract and the customer receives a fully executed copy of it. Written notice of cancellation may be delivered personally or by mail. If given by mail, the notice is effective upon placement in the possession of the United States postal service, properly addressed and first-class postage prepaid. Notice of cancellation need not take a particular form and is sufficient if it indicates, by any form of written expression, the intention of the customer not to be bound by the contract. Within ten business days after receipt of the notice of cancellation, the invention developer shall deliver to the customer, personally or by mail, all moneys paid, any note or other evidence of indebtedness, and all materials provided by the customer.

2. Every contract for invention development services must contain the following statement in ten-point boldface type immediately above the place where the customer signs the contract:

The three-business-day period during which you may cancel this contract for any reason by mailing or delivering written notice to the invention developer will expire on (last date to mail or deliver notice). If you choose to mail your notice, it must be placed in the United States mail addressed to (name of invention developer), at (address of invention developer's place of business) with first-class postage prepaid before midnight of this date. If you choose to personally deliver your notice to the invention developer, it must be delivered to the invention developer by five p.m. on this date.

SECTION 4. Mandatory contract form.

1. A contract for invention development services must set forth the information required in this section in at least ten-point type or equivalent size if handwritten.
2. The following disclosure statement must be in boldface type and must be located conspicuously on a cover sheet that contains no other writing:

The following disclosures are required by law and are expressly made a part of this contract: You have the right to cancel this contract for any reason at any time within three business days from the date you and the invention developer sign the contract and you receive a fully executed copy of it. To exercise this option you need only mail or personally deliver to this invention developer written notice of your cancellation. The method and time for notification is

set forth in this contract immediately above the place for your signature. Upon cancellation, the invention developer must return by mail or personal delivery, within ten business days after receipt of the cancellation notice, all money paid and all materials provided either by you or by another party in your behalf.

Unless the invention developer is an attorney or patent agent registered with the United States patent office, the invention developer is not permitted to give you legal advice concerning patent, copyright, or trademark law or to advise you of whether your idea or invention may be patentable or may be protected under the patent, copyright, or trademark laws of the United States or any other law.

No patent, copyright, or trademark protection will be acquired for you by the invention developer or by this contract. Your failure to inquire into the law governing patent, copyright, or trademark matters may jeopardize your rights in your idea or invention both in the United States and in foreign countries. Your failure to identify and investigate existing patents, trademarks, or registered copyrights may place you in jeopardy of infringing the copyrights, patent rights, or trademark rights of other persons if you proceed to make, use, distribute, or sell your idea or invention.

3. The contract must describe fully and in detail the acts or services that the invention developer contracts to perform for the customer.
4. The contract must state whether the invention developer contracts to construct one or more prototypes, models, or devices embodying the customer's invention, the number of such prototypes to be constructed, and whether the invention developer contracts to sell or distribute such prototypes, models, or devices.
5. If an oral or written estimate of customer earnings is made, the contract must state the estimate and the data upon which it is based.
6. In a single statement the contract must set forth both the total number of customers who have contracted with the invention developer, except that the number need not reflect those customers who have contracted within the last thirty days, and the number of customers who have received, by virtue of the invention developer's performance of invention development services, an amount of money in excess of the amount of money paid by such

customers to the invention developer pursuant to a contract for invention development services.

7. The contract must state the expected date of completion of the invention development services.
8. The contract must state whether and the extent to which it effectuates or makes possible the purchase by the invention developer of an interest in the title to the customer's invention.
9. The contract must explain that the invention developer is required to maintain all records and correspondence relating to performance of the invention development services for that customer for a period not less than three years after expiration of the term of the contract for invention development services.
10. The contract must state that the records and correspondence required to be maintained pursuant to section 8 of this Act will be made available to the customer or the customer's representative for review and copying at the customer's expense on the invention developer's premises during normal business hours upon seven days' written notice, the time period to begin from the date the notice is placed in the United States mail properly addressed and first-class postage prepaid.
11. The contract must state the name of the person or firm contracting to perform the invention development services, all names under which said person or firm is doing or has done business as an invention developer during the previous ten years, the names of all parent and subsidiary companies to the firm, and the name of all companies that have a contractual obligation to the firm to perform invention development services.
12. The contract must state the invention developer's principal business address and the name and address of its agent in this state authorized to receive service of process in this state.

SECTION 5. Disclosures made prior to contract.

1. In either the first written communication from the invention developer to a specific customer or at the first personal meeting between the invention developer and a customer, whichever occurs first, the invention developer shall make a written disclosure to the customer of the information required in this section.
2. The disclosure must state the median fee charged to all of the invention developers' customers who have signed contracts with the developer in the preceding six months,

excluding customers who have signed in the preceding thirty days.

3. The disclosure must include a single statement setting forth the total number of customers who have contracted with the invention developer, except that the number need not reflect those customers who have contracted within the preceding thirty days, and the number of customers who have received by virtue of the invention developer's performance of invention development services an amount of money in excess of the amount of money paid by those customers to the invention developer pursuant to a contract for invention development services.
4. The disclosure must include a single statement setting forth the names of all individuals and entities that possess an ownership interest in the invention developer and have held or presently hold more than a ten percent ownership interest in any other invention developer. The statement must include for each individual and entity the information required to be disclosed by subsection 3.
5. The disclosure must contain the following statement:

Unless the invention developer is an attorney or patent agent registered with the United States patent office, the invention developer is not permitted to give you legal advice concerning patent, copyright, or trademark law or to advise you of whether your idea or invention may be patentable or may be protected under the patent rights, copyright, or trademark laws of the United States or any other law.

No patent, copyright, or trademark protection will be acquired for you by the invention developer. Your failure to inquire into the law governing patent, copyright, or trademark matters may jeopardize your rights in your idea or invention, both in the United States and in foreign countries. Your failure to identify and investigate existing patents, trademarks, or registered copyrights may place you in jeopardy of infringing the copyrights, patent rights, or trademark rights of other persons if you proceed to make, use, distribute, or sell your idea or invention.

6. If the invention developer provides invention development services involving the evaluation of inventions, the disclosure must include a statement setting forth the percentage of evaluated inventions that have been successfully marketed or licensed by the invention developer. If the invention developer does not provide invention development services involving the evaluation of inventions, the disclosure must inform the customer that there is considerable risk involved in proceeding with the

development and promotion of the invention without an evaluation and must further recommend that the customer obtain an evaluation of the invention by an evaluation source. The disclosure must contain the following statement:

It is likely that no more than two percent and probably less than one percent of all inventions are successfully developed and promoted. You should evaluate your chances of success accordingly and not rely solely on the opinion of an invention developer.

SECTION 6. Financial requirements.

1. Every invention developer rendering or offering to render invention development services in this state shall maintain a bond issued by a surety company authorized to do business in this state, and equal to either ten percent of the invention developer's gross income from the invention development business in this state during the invention developer's preceding fiscal year, or twenty-five thousand dollars, whichever is larger. A copy of the bond must be approved by the attorney general and filed with the secretary of state before the invention developer renders or offers to render invention development services in this state. The invention developer has ninety days after the end of each fiscal year within which to change the bond as may be necessary to conform to the requirements of this subsection.
2. The bond required by subsection 1 must be in favor of the state of North Dakota for the benefit of any person who, after entering into a contract for invention development services with an invention developer, is damaged by fraud or dishonesty of the invention developer in performance of the contract, by the insolvency or the cessation of business by the invention developer, or by the intentional violation of this Act by the invention developer. Any person claiming against the bond may maintain a claim for relief against the invention developer and the surety company.

The aggregate liability of the surety company to all persons for all breaches of conditions of the bond may not exceed the amount of the bond.

3. In lieu of the bond required by subsection 1, the invention developer may deposit with the Bank of North Dakota a cash deposit in the like amount. The Bank of North Dakota may not refund a deposit until sixty days after either the invention developer has ceased doing business in the state or a bond has been filed which complies with subsections 1 and 2.

SECTION 7. Restriction on use of negotiable instruments. In connection with a contract for invention development services, the invention developer may not take from a customer a negotiable instrument other than a check as evidence of the obligation of the customer. A holder is not a holder in due course if the holder takes a negotiable instrument taken from a customer in violation of this section.

SECTION 8. Records. Every invention developer shall maintain all records and correspondence relating to performance of each invention development contract for a period of not less than three years after expiration of the term of the contract.

SECTION 9. Remedies and enforcement.

1. The provisions of this Act are not exclusive and do not relieve the parties or the contract from compliance with all other applicable laws.
2. Any contract for invention development services that does not comply with the applicable provisions of this Act is unenforceable against the customer as contrary to public policy; provided, that no contract is unenforceable if the invention developer proves that noncompliance was unintentional and resulted from a bona fide error in spite of the developer's use of reasonable procedures adopted to avoid any such errors, and if the developer makes an appropriate correction.
3. Any contract for invention development services entered into by a customer with an invention developer who has used any fraud, false pretense, false promise, misrepresentation, misleading statement, or deceptive practice in respect to that customer with the intent that the customer rely thereon, whether or not the customer was in fact misled, deceived, or damaged, is unenforceable against the customer.
4. Any waiver by the customer of the provisions of this Act is contrary to public policy and is void and unenforceable.
5. Any person who has been injured by a violation of this Act by an invention developer, by any false or fraudulent statement, representation, or omission of material fact by an invention developer or by failure of an invention developer to make all the disclosures required by this Act may bring a civil action against the invention developer for the damages sustained together with costs and disbursements, including reasonable attorney's fees. The court in its discretion may increase the award of damages to an amount not to exceed three times the damages sustained.
6. Failure to make the disclosures required by section 5 of this Act renders any contract subsequently entered into between the customer and the invention developer voidable by the customer.

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