

PATENT ASSIGNMENT

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SUBMISSION TYPE:	NEW ASSIGNMENT
NATURE OF CONVEYANCE:	Court Order
CONVEYING PARTY DATA	
Name	Execution Date
Thomas G Stephens	12/20/2010
RECEIVING PARTY DATA	
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State/Country:	TEXAS
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PROPERTY NUMBERS Total: 6	
Property Type	Number
Patent Number:	7370828
Patent Number:	7365448
Application Number:	61057856
Application Number:	61100749
Application Number:	61031317
Application Number:	12110100
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OP \$240.00 7370828

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PATENT
REEL: 026205 FRAME: 0796

NAME OF SUBMITTER:

Kenneth Thomas Emanuelson

Total Attachments: 25

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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

**U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
FILED**

DEC 20 2010

CLERK, U.S. DISTRICT COURT

By M. L. Deputy 11:36 a.m.

**BROADSTAR WIND SYSTEMS
GROUP LLC, ET AL.,
Plaintiffs,**

v.

**THOMAS STEPHENS, ET AL.,
Defendants.**

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Case No. 3:10-cv-0369-F

ORDER

On November 29 and 30, 2010, the Court held a bench trial addressing the issue of a declaratory judgment regarding the ownership of intellectual property as between Plaintiff BroadStar Wind Systems Group LLC and Defendant Thomas Stephens. All other claims have been severed and will be tried at a later date. *See* Order Granting Pl.'s Mot. for Separate Trials, Docket No. 120, at 1-2.

Findings of Fact

The Court, as the finder of fact for purposes of trial on this issue, has determined the following facts:¹

¹On December 17, 2010, Plaintiff filed its Proposed Findings of Fact (Docket No. 135). Defendant filed an Objection and its own Proposed Findings of Fact on December 19, 2010 (Docket No. 136). The Court takes note of these filings, and bases its findings of fact in this Order upon the information presented to the Court during the trial of November 29-30, 2010. The parties continued to raise arguments of law unrelated to the fact finding role of the Court for the purposes of trial. The Court shall not consider such arguments at this stage, as they have been resolved by prior Orders issued by the Court in this litigation.

Defendant Thomas Stephens is an inventor who invents and develops energy-related technology, and has specifically developed technology related to electric generators and wind turbines. Stephens met Steve Else in 2003. Else is also an inventor with an engineering background. Prior to embarking upon his endeavor with Stephens, Else worked in the wind power and oil and gas energy industries. Stephens and Else discussed creating a specialized wind turbine that could have a number of practical applications for generating energy for buildings, various vehicles, and other uses. Stephens and Else worked on the technology together and formed a company known as X-Blade Systems, L.P. ("X-Blade"). X-Blade was founded as a holding company that would legally possess the patents and patent applications developed by Stephens and Else. In late 2007 and 2008, Else and Stephens became aware of a different turbine-related project that also involved the name "X-Blade." To avoid any future legal difficulties, paperwork was filed that changed the name of X-Blade Systems, L.P. to BroadStar Developments, LP ("Developments") on October 10, 2008. Exh. 6.

From 2003 to 2008, Stephens, Else, and their engineering teams developed and applied for patents for several pieces of intellectual property related to wind turbines. The patent application for the "Rotary Wing Aircraft" was filed in May 2006 and issued with the Patent Number 7,370,828 ("the '828 patent"). The patent for the "Wind Driver Power Generator" was filed in August 2006 and was issued as Patent Number 7,365,448 ("the '448 patent"). The '828 patent was assigned by Stephens to TGS Innovations, LP ("Innovations") in an assignment document recorded in the United States Patent and Trademark Office

(“USPTO”) on June 22, 2005. Exh. 14. The ‘828 patent was then assigned by Innovations to X-Blade in an assignment document recorded on October 24, 2008. *Id.* A “Change of Name” patent assignment, recognizing the name change of X-Blade to Developments, and recording Developments’s continued possession of the ‘828 patent, was recorded on October 24, 2010. The ‘448 patent was assigned by Stephens to X-Blade in an assignment document recorded with the USPTO on September 15, 2006. Exh. 15. Patent records accessible online via the USPTO website established that a “Change of Name” patent assignment recognized that ownership of the ‘448 patent was in Developments following its name change from X-Blade. On July 8, 2008, Stephens signed a document entitled “Employee Proprietary Information and Invention Assignment Agreement.” Exh. 5. In this agreement, Stephens agreed to assign all inventions developed during his employment with X-Blade to X-Blade. *Id.* It is undisputed between the parties that, until March of 2009, Developments owned all right, title, and interest in the ‘828 and ‘448 patents.²

²Stephens objected to admission of documents filed with the USPTO on the grounds that the documents provided to the Court were copies of the originals containing the seal of the USPTO. However, a court “may take judicial notice of Patent and Trademark Office Documents.” *Vitek Sys., Inc. v. Abbott Labs.*, 675 F.2d 190, 192 n.6 (8th Cir. 1992); *see also Gen. Elec. Co. v. Wilkins*, No. 1:10-CV-00674-OWW-JLT, 2010 WL 3958421, at *4 (E.D. Cal. Oct. 8, 2010) (“[J]udicial notice generally may be taken of Patent and Trademark Office documents”). Additionally, the parties do not factually contest the validity of assignments of the ‘828 and ‘448 patents to Developments prior to March 2009. The Court therefore takes judicial notice of USPTO records of the relevant assignments, marked as Exhibits 14-18, under Federal Rule of Evidence 201.

According to Else, the company was performing well until September 2008, was attracting potential customers, and had made significant progress in its wind turbine research and development. However, beginning in September 2008, in the wake of the financial crisis, the business began facing financial difficulties. Realizing that a significant investment was needed to keep the company afloat and that obtaining a loan for research would be extremely difficult, Else began seeking third party capital investments. As part of the effort to attract investors, Else and others involved in the company decided to create an entity that would include both the intellectual property belonging to the company and the working apparatus of engineers and other personnel that developed and tested technology. The ultimate result was the formation of BroadStar Wind Systems Group LLC ("BroadStar"), which is the Plaintiff in this action. In December 2008, Stephens signed a document entitled "Contribution, Assignment and Assumption Agreement." Exh. 7. Stephens assigned "all of his right, title, and interest" in Developments to BroadStar in exchange for a 30% ownership interest in BroadStar. *Id.* at 1. Else signed a similar agreement, assigning all of his right, title, and interest in Developments to BroadStar. Else took the position of President and CEO of BroadStar. Stephens was given the title of Chief Innovator.

During this time, it became clear that the work of BroadStar would be focused on developments surrounding wind turbines. All technology that Stephens had worked on, developed, or patented that related to electric generators was held in a different company, Innovations. Among the technology belonging to and developed by Innovations is an

internal combustion engine known as the “Slidewinder.” This technology is not affiliated with Developments or BroadStar.

Jim Barnes indicated an interest in investing in the company in November 2008. Representatives of Barnes and Broadstar participated in several months of negotiations from December of 2008 to March of 2009 that determined the terms of Barnes’s investment in Broadstar. During this time, Stephens was represented by counsel, Norm Lofgren.

In January 2009, during the negotiations, BroadStar needed a bridge loan to ensure it continued operations. Barnes offered a \$750,000 loan to BroadStar, with BroadStar’s intellectual property as collateral to the bridge loan. BroadStar collateralized all intellectual property that had been assigned to Developments for the bridge loan and pledged it to Barnes in the event the loan could not be repaid. The loan documents defined the “assignor” as BroadStar, including in the definition “any subsidiary thereof, including but not limited to BroadStar Developments LP.” The ‘828 and ‘448 patents were named in this agreement, which was signed for Developments by Else as President of BroadStar Developments Management LLC, the sole general partner of Developments.

After months of negotiations, Barnes’s representatives and BroadStar’s representatives came to an agreement in March 2009. Barnes, through an investment vehicle known as BroadStar Investment Company LLC (“BICO”), agreed to commit \$6,000,000 to BroadStar. In exchange, BICO received a controlling interest in BroadStar. Stephens and Else unanimously approved the transaction on behalf of BroadStar. This transaction was

memorialized in a Purchase and Sale Agreement. Exh. 1. The Purchase and Sale Agreement included a schedule of intellectual property owned by BroadStar called Schedule 2.17(iv). This Schedule named the '828 patent and the '448 patent as being part of BroadStar's "Proprietary Rights." *Id.* at BSW 0020, 0429.

As part of the Purchase and Sale Agreement, Stephens also signed an Employment Agreement with BroadStar in March 2009. The terms of the agreement were negotiated by Norm Lofgren. The agreement included a clause, Paragraph 6.2, that discussed BroadStar's rights to certain intellectual properties.³ According to Stephens, Paragraph 6.2 gave him the ownership of the '828 and '448 patents, and gave BroadStar a non-exclusive royalty-free license to use them. Stephens, testified, however, that he never communicated such an interpretation to Barnes, or any other person involved in the transaction with Barnes or the Employment Agreement with BroadStar, when he or his counsel signed or negotiated the agreement. Stephens does assert that he had one conversation with Else in which he expressed the need to "protect the patents," but he did not give any specifics as to what he meant with that statement. Paragraph 6.2 does not specifically refer to the '828 and '448 patents, or any other specific piece of intellectual property. Else and BroadStar disputed Stephens's interpretation, claiming that the purpose of Paragraph 6.2 was to ensure that BroadStar had a non-exclusive royalty-free license in any intellectual property developed by Stephens in connection with his work on electric motors. Barnes's investment with

³The full text of Paragraph 6.2 can be found later in this Order.

BroadStar only related to intellectual property and research and development related to wind turbines. Else testified that the reason Barnes wished to include this clause was to ensure that BroadStar would have access to any technology developed by Stephens related to electric motors and generators that could have been useful to the development of wind turbine intellectual property belonging to BroadStar.

As part of this March 2009 agreement, Stephens received a seat on BroadStar's board, a salary, and 1.3 million membership units. Stephens later set up an entity called T.G. Stephens Capital ("TGS Capital"), which acted as a holding company for his membership interest in BroadStar. Stephens worked for BroadStar and served on its board for the first several months after the execution of the Purchase and Sale Agreement. Stephens's responsibilities included working on prototype development in the field, coming up with intellectual property, and overseeing the intellectual property process. BroadStar continued to develop the wind turbine technology and constructed wind turbines for testing.

In late 2009, Stephens wished to clarify a number of issues regarding the company through a Confidential Information Memorandum ("CIM"). Stephens, Else, and other figures involved with BroadStar constructed the CIM in the last several months of 2009. In December of 2009, BroadStar was working on a major project installing a prototype wind turbine at the ranch of movie director James Cameron. While Stephens and Else were working on this project, Stephens suddenly objected to the terms of the CIM but declined to say what was wrong with it. Stephens refused to tell Else what was wrong with the CIM but

claimed that there were others involved who were instructing him not to give any information to Else, including Norm Lofgren. Over the next few weeks, according to Else, BroadStar received communications from an attorney named Scott Johannessen, who was involved with Stephens and claimed to represent him. Stephens and Johannessen made various representations and attempted to establish that Stephens, not Developments, individually owned the '828 and '448 patents. Stephens testified that he gained ownership of the '828 and '448 patents through the signing of the Employment Agreement in March 2009, and that he assigned those patents to Etcetera in September 2009. Stephens claims that because he was the owner of the '448 and '828 patents, he had the ability to assign them to Etcetera, and that Etcetera therefore owns the patents, not Plaintiff. In January, Else became aware of Etcetera, LLC ("Etcetera"), which claimed to own the '828 and '448 patents. Etcetera's ownership includes both Johannessen and TGS Capital. As this dispute continued, BroadStar filed for bankruptcy in early 2010.

BroadStar filed this lawsuit in February 2010, seeking, among other relief, a declaratory judgment that Developments, not Stephens or TGS Capital, is the owner of the patents, and that because Stephens did not own the patents, he had no intellectual property that could have been assigned to Etcetera. If the Court determines that Stephens did in fact own the patents through the Employment Agreement or for any other reason, then Etcetera may have a valid interest in the patents. However, if the Court determines that BroadStar's fully owned subsidiary, Developments, owned the patents and Stephens did not acquire an

ownership interest in March 2009 or later through the Employment Agreement or for any other reason, then Stephens had nothing to transfer to Etcetera, Etcetera could not have obtained an interest in the patents, and Developments owns the patents.

Intellectual Property of Undisputed Ownership

During the trial, it became clear that there is no dispute between the parties as to the ownership of several intellectual properties involved in the transaction between BroadStar and Barnes. Both parties agreed that Plaintiff BroadStar Wind Systems Group LLC has full rights, title, and interest to the following intellectual properties listed in Schedule 2.17(iv) of the Purchase Agreement:

- “Wind Driven Power Turbine” (U.S. Patent Appl. No. 61/031,317);

- “Wind Driven Power Turbine and Applications of Same” (U.S. Patent Appl. No. 61/057,856);

- “Wind Driven Power Generator With Moveable Cam” (U.S. Patent Appl. No. 12/110,100);

- “Mobile Wind Turbine” (U.S. Patent Appl. No. 61/100,479);

- “Fluid Turbine Optimized for Power Generation” (in preparation);

- “Hydraulic Cam” (in preparation); and

- “Water Turbine” (in preparation).

Considering the agreement between the parties, the Court issues the following declaratory judgment:

BroadStar Developments, LP, a fully-owned subsidiary of Plaintiff BroadStar Wind Systems Group LLC, has full right, title, and interest to the following intellectual property: “Wind Driven Power Turbine” (U.S. Patent Appl. No. 61/031,317); “Wind Driven Power Turbine and Applications of Same” (U.S. Patent Appl. No. 61/057,856); “Wind Driven Power Generator With Moveable Cam” (U.S. Patent Appl. No. 12/110,100); “Mobile Wind Turbine” (U.S. Patent Appl. No. 61/100,479); “Fluid Turbine Optimized for Power Generation” (in preparation); “Hydraulic Cam” (in preparation); and “Water Turbine” (in preparation).

Ownership of the ‘828 and ‘448 Patents

The main dispute between the parties is the ownership of the ‘828 and ‘448 patents. The parties stipulated to the fact that all right, title, and interest in the patents was in Developments prior to March of 2009. At the time of the execution of the Employment Agreement between BroadStar and Stephens in March 2009, Developments was a wholly-owned subsidiary of BroadStar. There is no dispute that Developments was the last recorded owner of the patents in reports filed with the USPTO. Additionally, the Court has found that Developments was a wholly-owned subsidiary of BroadStar beginning in November 2008, and that neither Stephens nor TGS Capital, Stephens’s trust, has any ownership interest in Developments. The issue the Court must consider is whether at any point from March 2009 onwards, ownership of the ‘828 and ‘448 patents was transferred from Developments to Stephens.

Stephens raises several arguments that he claims support his contention that he owned the patents at the time he assigned them to Etcetera in September 2009. First, Stephens claims that the Employment Agreement with BroadStar that his counsel negotiated and he signed in March 2009 made him the owner of the '828 and '448 patents. Second, Stephens argues that, even if he did not own the patents by virtue of the Employment Agreement, ownership of the patents reverted to him prior to his assignment of the patents to Etcetera in September of 2009 when the charter of Developments lapsed due to a failure to pay certain debts to the Texas Secretary of State. Third, Stephens claims that, because Developments was the last recorded owner of the patents with the USPTO, and no further recorded assignments took place, BroadStar cannot claim that it owns the patents. Fourth, Stephens argues that Etcetera was a bona fide purchaser of the '828 and '448 patents, which means that Etcetera and not BroadStar validly owns the intellectual property. The Court will address each of these arguments in turn.

A. Stephens's Employment Agreement

Stephens's most prominent argument at trial was that Paragraph 6.2 of the Employment Agreement signed by Stephens effectively transferred the ownership of the '828 and '448 patents from Developments to Stephens. Paragraph 6.2 provides:

6.2 Proprietary Information and Disclosure. Executive agrees that Executive will at all times promptly disclose to BroadStar (which for the purposes of this Section 6.2, shall include BroadStar and any subsidiaries and affiliates of BroadStar), in such form and manner as BroadStar may reasonably require, any inventions, improvements or procedural or methodological innovations, programs methods, forms, systems, services, designs, marketing

ideas, products or processes (whether or not capable of being trade-marked, copyrighted or patented) conceived or developed or created by Executive during or in connection with Executive's employment with BroadStar and which directly relate to BroadStar's wind turbine technology business ("Intellectual Property"); provided, however, Intellectual Property shall not include inventions, improvements or procedural or methodological innovations, programs, methods, forms, systems, services, designs, marketing ideas, products or processes (whether or not capable of being trademarked, copyrighted or patented) conceived or developed or created by Executive at any time which (i) relate to generators, alternators, electric motors, engines or similar devices ("electric device improvements") or (ii) do not directly relate to the aerodynamic or mechanical aspects of BroadStar's wind turbine technology business; provided, further, however, with respect to inventions, improvements or procedural or methodological innovations, programs, methods, forms, systems, services, designs, marketing ideas, products, or processes (whether or not capable of being trademarked, copyrighted or patented) conceived or developed or created by Executive while employed by, or prior to being employed by, BroadStar which are directly usable by BroadStar in its AeroCam wind turbine technology business ("AeroCam Applicable Electrical Inventions"), BroadStar shall be entitled to a royalty-free non-exclusive license to use such AeroCam Applicable Electrical Inventions into its wind turbine systems offered for sale or lease as well as use by BroadStar pursuant to power purchase contracts. The foregoing non-exclusive right to use the AeroCam Applicable Electrical Inventions shall not otherwise permit BroadStar to sell, lease or further sub-license such AeroCam Applicable Electrical Inventions[.] Executive agrees that all Intellectual Property shall be the sole property of BroadStar. Executive further agrees that Executive will execute such instruments and perform such acts as may reasonably be requested by BroadStar, but at the expense of BroadStar, to transfer to and perfect in BroadStar all legally protectible rights in such Intellectual Property.

Exh. 1, BSW 0083-0084.

Stephens's interpretation of the above paragraph is that it transferred full right, title, and interest in the '828 and '448 patents from Developments to Stephens, and grants BroadStar a royalty-free license to use the wind turbine technology and build wind turbines based on the '828 and '448 patents if they so choose. Stephens further claims that this

agreement and his interpretation of this paragraph supersedes any other agreement that he or any of the ownership or management interests in BroadStar made regarding the ‘828 and ‘448 patents, including any assignments from Stephens or Innovations to Developments or its predecessor, X-Blade. Stephens bases this contention on Paragraph 10.8 of the Employment Contract, which provides:

10.8 Entire Agreement. This Agreement constitutes the entire agreement between the Parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement. The terms and conditions of the employment with BroadStar as set forth herein are integrated with and supersede any contrary verbal discussions concerning conditions of employment.

Id. at 0087. By Stephens’s logic, these two clauses in the Employment Agreement made him the owner of the ‘828 and ‘448 patents.

The Court must interpret the Employment Agreement to give effect to the intention of the parties. *Mustang Tractor & Equip. Co. v. Liberty Mut. Ins. Co.*, 76 F.3d 89, 91 (5th Cir. 1996) (citing *Nat’l Union Fire Ins. Co. of Pittsburgh, Pa. v. CBI Indus., Inc.*, 907 S.W.2d 517, 520 (Tex. 1995)). “When interpreting contracts, courts applying Texas law must strive to ascertain the parties’ intent as expressed in the written instrument.” *Mullins v. TestAmerica, Inc.*, 564 F.3d 386, 404 (5th Cir. 2009). If a contract’s “meaning is uncertain and doubtful or it is reasonably susceptible to more than one meaning, taking into consideration circumstances present when the particular writing was executed, then it is ambiguous and its meaning must be resolved by a finder of fact.” *Id.* (quoting *Lenape Res. Corp. v. Tenn. Gas Pipeline Co.*, 925 S.W.2d 565, 574 (Tex. 1996)). Only when such

ambiguity exists may the finder of fact consider extrinsic evidence in interpreting the meaning of the contract to determine the parties' intent. *Id.* (citing *R & P Enters. v. LaGuarta, Gavrel & Kirk, Inc.*, 596 S.W.2d 517, 519 (Tex. 1980)). As expressed by the Court during trial, the nature of the writing of the Employment Agreement is unclear, and could be subject to different interpretations. Therefore, the Court will, where necessary, refer to extrinsic evidence to assist in interpreting the language of the Employment Agreement.

The Court finds that Stephens's interpretation of the Employment Agreement is contradicted by the language of the agreement and the circumstances of the transaction and cannot be supported. The paragraph specifically defines "Intellectual Property" as "any inventions, improvements or procedural or methodological innovations, programs methods, forms, systems, services, designs, marketing ideas, products or processes (whether or not capable of being trade-marked, copyrighted or patented) conceived or developed or created by Executive during or in connection with Executive's employment with BroadStar and which directly relate to BroadStar's wind turbine technology business." The paragraph later states, "Executive agrees that all Intellectual Property shall be the sole property of BroadStar." After considering the plain language of the contract and other materials admitted into evidence relevant to its interpretation, the Court interprets this to mean that anything developed by Stephens while employed by BroadStar that relates to the development of wind turbine technology beginning in March 2009 would belong to BroadStar.

The second part of Paragraph 6.2 provides, in relevant part:

. . . Intellectual Property shall not include inventions, improvements or procedural or methodological innovations, programs, methods, forms, systems, services, designs, marketing ideas, products or processes (whether or not capable of being trademarked, copyrighted or patented) conceived or developed or created by Executive at any time which (i) relate to generators, alternators, electric motors, engines or similar devices (“electric device improvements”) or (ii) do not directly relate to the aerodynamic or mechanical aspects of BroadStar’s wind turbine technology business; provided, further, however, with respect to inventions, improvements or procedural or methodological innovations, programs, methods, forms, systems, services, designs, marketing ideas, products, or processes (whether or not capable of being trademarked, copyrighted or patented) conceived or developed or created by Executive while employed by, or prior to being employed by, BroadStar which are directly usable by BroadStar in its AeroCam wind turbine technology business (“AeroCam Applicable Electrical Inventions”), BroadStar shall be entitled to a royalty-free non-exclusive license to use such AeroCam Applicable Electrical Inventions into its wind turbine systems offered for sale or lease as well as use by BroadStar pursuant to power purchase contracts.

The Court finds that this language means that the above definition of “Intellectual Property” excludes any technology developed by Stephens that relates to his work on electrical generators or is unrelated to wind turbines. However, if any of that technology, or any other technology developed by Stephens prior to his employment with BroadStar beginning in March 2009, could be effectively used in the development of a wind turbine, then BroadStar would have a royalty-free non-exclusive license to use any of that non-wind-turbine-related technology. This is supported by the fact that the transaction that resulted in Barnes’s investment in BroadStar focused on the wind turbine technology separate from electric generator technology. Steve Else testified that technology related to electric generators was encompassed in Innovations, while technology related to wind turbines was

encompassed in BroadStar and its subsidiary, Developments. Paragraph 6.2 of the Employment Agreement ensures that any developments made by Stephens while employed by BroadStar that relate to wind turbines are owned by BroadStar, and that BroadStar will have access through a license to any other technology related to electric generators that Stephens owned or developed before or after his employment with BroadStar began.

Stephens argues that the language of Paragraph 6.2 providing that BroadStar shall have a “royalty-free non-exclusive license” includes the ‘828 and ‘448 patents, and that BroadStar is therefore only in possession of such a license. The Court rejects this argument. There is no language at any part in the Employment Agreement that refers to either the ‘828 patent or the ‘448 patent. The Court’s interpretation of the language of Paragraph 6.2 is that the paragraph creates terms that only apply to intellectual property that either (1) would have been developed by Stephens while employed at BroadStar that relates to wind turbines, which would be owned by BroadStar, or (2) electric generator-related technology that was developed before or during Stephens’s employment at BroadStar, in which BroadStar would have a royalty-free non-exclusive license.

Stephens claims that the ‘828 and ‘448 patents fall within the second category. This contention cannot stand for two reasons. First, while it is true that the ‘828 and ‘448 patents were developed at least in part by Stephens prior to his employment with BroadStar, these patents consist of wind turbine technology. The terms of Paragraph 6.2 give BroadStar a license in electric generator technology that is “directly usable by BroadStar in its AeroCam

wind turbine technology business.” This includes only electric motor and generator technology, and does not include the wind turbine technology covered by the ‘828 and ‘448 patents. Second, BroadStar and Stephens stipulated at trial that, until the execution of the Employment Agreement, the ‘828 and ‘448 patents were owned by Developments. Nothing in the Employment Agreement or any other document affiliated with the March 2009 Purchase Agreement either assigned the ‘828 and ‘448 patents from Developments to Stephens or had the effect of the ownership of the patents reverting to Stephens. For an assignment of patent rights to be valid, it must be executed in writing. *See Gaia Techs., Inc. v. Reconversion Techs., Inc.*, 93 F.3d 774, 780 (Fed. Cir. 1996), *as amended* 104 F.3d 1296 (Fed. Cir. 1996) (“[T]he relevant statutes require an assignment of patents and registered trademarks to be in writing.”). There is nothing within the Employment Agreement, the written document that Stephens contends documented the assignment, or any other document, that assigned the patents from Developments to Stephens. BroadStar could not have received a license to use intellectual property that Developments already owned and did not convey. The analysis of the contract cannot give credence to Stephens’s testimony that he believed that the language of the Employment Agreement gave him ownership of the patents.

Stephens further testified that the Employment Agreement was the only document that he ever saw or signed that related to Barnes’s investment in BroadStar, and that he did not agree to any agreement or document that deprives him of the patents. He claimed that Else gave him signature pages to sign, which were later attached to documents that approved the

terms of the purchase agreement. Therefore, Stephens argues that the Employment Agreement was the only contract that he agreed to, and that it should be the only binding agreement with regard to the '828 and '448 patents. Even if the Court were to accept Stephens's contention that the Employment Agreement is the only contract that he agreed to, nothing in the Employment Agreement supports his contention that it resulted in him owning the patents. Stephens claims that he had discussions with Barnes and Else where he claimed that he wanted to "protect the patents," but conceded that he never specifically told Barnes or Else that his interpretation of the Employment Agreement at the time it was signed was that it gave him ownership of the patents. Stephens has presented no evidence or testimony that would support his interpretation of the Employment Agreement.

Furthermore, Stephens's contention that the Employment Agreement superseded all other agreements and assignments is both legally and factually unsupportable. The Employment Agreement was signed in conjunction with the Purchase Agreement, which specifically listed the '828 and '448 patents as technology that belongs to BroadStar. The Employment Agreement was also included within the Purchase Agreement. The Court cannot accept the argument that one paragraph from the Employment Agreement takes precedence over all other parts of the Employment Agreement and the entire Purchase Agreement and overrides any previous assignments of the patents to Developments, which were transactions that took place before BroadStar ever came into existence. The language of the Employment Agreement not only does not grant Stephens an ownership interest in the

‘828 and ‘448 patents, but has no impact whatsoever upon Development’s full right, title, and interest in the patents.

B. The Forfeiture of Developments’s Charter

Stephens alternatively argues that he gained ownership of the patents, and therefore the right to assign them to Etcetera, when the charter of Developments was forfeited for failure to pay franchise taxes in September 2009. This argument fails as a matter of law. BroadStar concedes that Developments’s charter was forfeited in September of 2009, but that the charter was reinstated when the delinquent franchise taxes were paid in March 2010. “Forfeiture of a corporate charter does not result in the dissolution of a business.” *Tiddies, Inc. v. Brown*, No. 3:02-CV-2249-BF, 2005 U.S. Dist. LEXIS 3456, at *6 (N.D. Tex. Mar. 4, 2005) (citing *Hinkle v. Adams*, 74 S.W.3d 189, 193-94 (Tex. App. — Texarkana 2002, no pet.)). “Neither the forfeiture of corporate privileges by the comptroller nor the forfeiture of a corporation’s charter by the secretary of state extinguishes the corporation as an entity.” *Id.* at *6-*7 (citing *Lighthouse Church of Cloverleaf v. Tex. Bank*, 889 S.W.2d 595, 601 (Tex. App. — Houston [14th Dist.] 1994, writ denied)). When a corporation files its delinquent reports and pays its delinquent franchise taxes, its corporate privileges and charter are retroactively reinstated. *Mello v. A.M.F. Inc.*, 7 S.W.3d 329, 331 (Tex. App. — Beaumont 1999, pet. denied). The reinstatement makes it as though the forfeiture of the corporation’s charter had never occurred. *Hinkle*, 74 S.W.3d at 193-94. Therefore, because the reinstatement of Developments’ charter made it as though the forfeiture never took place, the

September 2009 forfeiture had no legal impact upon Developments, including its ownership of the '828 and '448 patents. Even if the Court were to find that the forfeiture affected Developments' rights, the effects of the forfeiture would have had no legal impact upon Developments' intellectual property ownership. The Texas Tax Code provides that the only effects of a forfeiture are that the corporation is denied the right to sue or be sued in a Texas state court, and that each director or officer is liable for certain debts of the corporation. Tex. Tax Code § 171.252 (2010). A forfeiture of the charter does not extinguish the entity so long as there is a statutory right to have the corporate charter reinstated. *Lighthouse Church*, 889 S.W.2d at 601; *McGown v. Kittel*, 480 S.W.2d 47, 50 (Tex. Civ. App. — Fort Worth 1972, writ ref'd n.r.e.). Developments had such a right under Section 171.313 of the Texas Tax Code, and exercised that right. A forfeiture also does not cause its intellectual property to simply fall into the possession of one who has no interest in the entity. There is no merit to the argument that the forfeiture somehow caused the '828 and '448 patents to come into Stephens's possession.

C. Recorded Assignments in the United States Patent Office

Stephens argues that BroadStar cannot claim ownership of the '828 and '448 patents because there was no recorded transfer from Developments to BroadStar. BroadStar, however, specifically noted to the Court at trial that it was seeking a declaratory judgment that Developments, its wholly-owned subsidiary, possessed full right, title, and interest in the '828 and '448 patents. The Court has determined that Developments is a wholly-owned

subsidiary of BroadStar. Developments has been joined as a plaintiff to this action. *See* Order Granting Pl.'s Mot. to Join Additional Pl., Docket No. 134, at 4-5. The Court can issue a declaratory judgment regarding Developments's ownership rights as to the '828 and '448 patents. Additionally, the statements and arguments of the parties at trial revealed that the central issue was the interpretation of the Employment Agreement, and what ownership interests BroadStar and Stephens possessed in the '828 and '448 patents as a result of that contract. "[I]n a declaratory judgment action, a party to a contract may file suit to declare rights under a contract if the circumstances show the presence of 'ripening seeds of controversy.'" *Am. Nat'l Ins. Co. v. Cannon*, 86 S.W.3d 801, 806 (Tex. App.—Beaumont 2002, no pet.) (quoting *Tex. Dep't of Banking v. Mount Olivet Cemetery Ass'n*, 27 S.W.3d 276, 282 (Tex. App.—Austin, 2000, pet. denied)). Accordingly, the Court may interpret the rights that the parties to the contract, BroadStar and Stephens, have under the contract. Therefore, the Court rejects this argument.

D. Etcetera as a Bona Fide Purchaser

Stephens finally argues that BroadStar cannot be declared the owner of the '828 and '448 patents because Etcetera was a bona fide purchaser of the patents from Stephens. Stephens testified that he assigned the patents to Etcetera in September 2009 in exchange for \$3,000. He argues that, because he believed he owned the patents, this assignment was valid, and that Etcetera is the owner of the patents. While neither party addressed the issue of standing during trial, the Court doubts that Stephens has standing to raise this argument.

Stephens does not claim to own an interest in the patents and asserts that he assigned his interest in the patents to Etcetera in September 2009. If Etcetera were a bona fide purchaser, Etcetera itself would have standing to raise the bona fide purchaser argument. *Filmtec Corp. v. Allied-Signal Inc.*, 939 F.2d 1568, 1573-74 (Fed. Cir. 1991). It is unlikely that Stephens, the supposed assignee, would have standing to raise that argument on behalf of Etcetera. However, even if Stephens does have standing to raise this argument, it appears to the Court that Etcetera was not a bona fide purchaser.

“An assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.” 35 U.S.C. § 261.⁴ “Notice” in the context of Section 261 derives from common law principles, and includes actual, inquiry, and constructive notice. *Filmtec*, 939 F.2d at 1574. “Generally, a bona fide purchaser is one who purchases legal title to property in good faith for valuable consideration, without notice of any other claim of interest in the property.” *Rhone-Polenc Agro, S.A. v. Dekalb Genetics*

⁴At the beginning of the trial, Stephens raised the argument that BroadStar could not possess any interest in the ‘828 and ‘448 patents because the last recorded assignment in the USPTO of the two patents was to Developments, and any assignment from Developments to BroadStar should have been recorded with the USPTO. Because the Court has determined that previous agreements involving Else, Stephens, and entities owned by those two individuals made Developments a wholly-owned subsidiary of BroadStar, the Court does not find merit to this argument. However, although reference to 35 U.S.C. § 261 did not aid Stephens in that argument, the statute is relevant to his argument that Etcetera was a bona fide purchaser of the ‘828 and ‘448 patents.

Corp., 284 F.3d 1323, 1329 (Fed. Cir. 2002). “[W]hen a legal title holder of a patent transfers his or her title to a third party purchaser for value without notice of an outstanding equitable claim or title, the purchaser takes the entire ownership of the patent, free of any prior equitable encumbrance.” *Filmtec*, 939 F.2d at 1573 (citing *Hendrie v. Sayles*, 98 U.S. 546, 549 (1879)). However, the facts in this case indicate that Etcetera could not have been a bona fide purchaser of the ‘448 and ‘828 patents.

To be a bona fide purchaser, Etcetera must have had no knowledge that a person or entity other than Stephens owned the patents. *See Gaynier v. Ginsberg*, 715 S.W.2d 749, 758 (Tex. App. — Dallas 1986) (noting that, to be a bona fide purchaser, a party must have had “no knowledge, actual or constructive,” of another’s claims to the property at issue). Two facts clearly indicate that Etcetera did have notice of Developments’s ownership of the patents. First, Stephens testified that TGS Capital, a company he created to hold his membership units in BroadStar, also contains an ownership interest in Etcetera. This is indicative of constructive notice, which “may be based on any fact within the knowledge, or means of knowledge, of the purchaser of the unrecorded assignment, and which fact should logically lead him, upon inquiry, to a knowledge of the existence and purport of that assignment itself.” *Katz v. Lear Siegler, Inc.*, 5 F.3d 1502 (Table), 1993 WL 262564, at *4 (Fed. Cir. 1993) (quoting A. Walker, *Walker on Patents* § 281 (4th ed. 1904)). If Stephens’s company had an ownership interest in Etcetera, and Stephens was aware of Developments’ ownership of the patents, then Etcetera could not be said to have no notice of Developments’

interest. *See Filmtec*, 939 F.2d at 1574 (concluding that because a founder of a company signed away his rights to a patent, the company “may well be deemed to have had actual notice of an assignment”).

Second, as Stephens pointed out early in the trial, the last assignment on record of the ‘828 and ‘448 patents with the USPTO was to Developments. There was no additional assignment recorded with the USPTO, and a simple look at the USPTO’s records would have indicated to Etcetera that Stephens did not have an interest in the patents, but that they had been assigned to Developments. Stephens’s contention that he owned the patents through the Employment Agreement had also not been recorded with the USPTO. Etcetera therefore had inquiry notice of Developments’ ownership and could not be said to have been “without notice” of the assignment from Stephens to Developments.

Conclusion

For the reasons stated above, the Court issues the following Declaratory Judgment:

All right, title, and interest in the ‘828 and ‘448 patents are declared to be owned by BroadStar Developments, LP, a wholly owned subsidiary of BroadStar Wind Systems Group LLC. BroadStar Developments, LP has owned all right, title, and interest to the patents since their assignment to BroadStar Developments, LP upon its name change from X-Blade Systems, L.P in October 2008. At no point from the name change in October 2008 to the present has any right, title, or interest in the ‘828 and ‘448 patent been granted, transferred, or in any way come into the possession or ownership of Thomas Stephens. The Employment

Agreement signed by Thomas Stephens with BroadStar Wind Systems Group LLC in March 2009 did not transfer any right, title, or interest in the '828 and '448 patents from BroadStar Developments, L.P. to Thomas Stephens. The lapse of the charter of BroadStar Developments, L.P. did not cause BroadStar Developments, L.P. to lose any right, title, or interest in the '828 and '448 patents, and did not cause Thomas Stephens to gain any right, title, or interest in the '828 and '448 patents.

IT IS SO ORDERED.

SIGNED this 20th day of December, 2010.



Royal Furgeson
Senior United States District Judge