

## LEGISLATIVE BILL 96

Approved by the Governor March 11, 1991

Introduced by L. Johnson, 15; Hefner, 19; Abboud, 12

AN ACT relating to consumer protection; to adopt the Invention Development Services Disclosure Act. Be it enacted by the people of the State of Nebraska,

Section 1. This act shall be known and may be cited as the Invention Development Services Disclosure Act.

Sec. 2. For purposes of the Invention Development Services Disclosure Act:

(1) Contract for invention development services shall mean a contract by which an invention developer undertakes invention development services for a customer;

(2) Customer shall mean any person, firm, partnership, corporation, or other entity that enters into a contract for invention development services, except any firm, corporation, or other entity, other than a natural person, purchasing invention development services as an adjunct to the traditional commercial enterprises in which it engages as a livelihood;

(3) Invention shall mean a discovery, process, machine, design, formulation, product, concept, or idea, or any combination thereof, whether patentable or not;

(4) Invention developer shall mean any person, firm, partnership, or corporation and any agent, employee, officer, partner, or independent contractor thereof who offers to perform or performs for a customer any invention development services. Invention developer shall not include:

(a) Any department or agency of the federal, state, or local government;

(b) Any nonprofit, charitable, scientific, or educational organization described in section 170(b)(1)(A) of the Internal Revenue Code of 1986, as amended;

(c) Any attorney acting within the scope of the attorney's professional license;

(d) Any person duly registered before the United States Patent and Trademark Office acting within the scope of that person's professional license; or

(e) Any person, firm, corporation, association, or other entity that does not charge a fee

for invention development services other than any payment made from a portion of the income received by a customer by virtue of such acts performed by such entity. For purposes of this subdivision, fee shall include any payment made by the customer to such entity including reimbursement for expenditures made or costs incurred by such entity; and

(5) Invention development services shall mean any act involved in the evaluation of an invention for commercial potential and the marketing, brokering, or promoting of such an invention done by or for an invention developer for the purpose of procuring a licensee or buyer for an intellectual property right in the invention.

Sec. 3. (1) Every contract for invention development services shall be in writing and shall be subject to the Invention Development Services Disclosure Act. A copy of the written contract shall be given to the customer at the time he or she signs the contract.

(2) If it is the invention developer's normal practice to seek more than one contract in connection with an invention or if the invention developer normally seeks to perform services in connection with an invention in more than one phase with the performance of each phase covered in one or more subsequent contracts, the invention developer shall so state in writing at the time the customer signs the first contract and shall supply to the customer such writing together with a written summary of the developer's normal terms, if any, of such subsequent contracts, including the approximate amount of the developer's normal fees or other consideration, if any, that may be required from the customer.

(3) Notwithstanding any contractual provision to the contrary, no payment for invention development services shall be required, made, or received until three business days after the date on which the customer receives a copy of the contract for invention development services signed by the invention developer and the customer. Delivery of a promissory note, check, bill of exchange, or negotiable instrument of any kind to the invention developer or to a third party for the benefit of the invention developer, irrespective of the date or dates appearing in such instrument, shall be deemed payment for the purpose of this section.

(4) The parties to a contract for invention development services shall have the option to terminate the contract until payment is made. The customer may exercise the option by refraining from making payment to

the invention developer. The invention developer may exercise the option to terminate by giving to the customer a written notice of its exercise of the option, which written notice shall become effective upon receipt by the customer.

Sec. 4. (1) Every contract for invention development services shall have a conspicuous and legible cover sheet attached with the following notice printed thereon in boldface of at least ten-point type:

THIS CONTRACT BETWEEN YOU AND AN INVENTION DEVELOPER IS REGULATED BY THE INVENTION DEVELOPMENT SERVICES DISCLOSURE ACT. YOU ARE NOT PERMITTED OR REQUIRED TO MAKE ANY PAYMENTS UNDER THIS CONTRACT UNTIL THREE BUSINESS DAYS AFTER YOU SIGN THIS CONTRACT AND RECEIVE A COMPLETED COPY OF IT.

IF YOU ASSIGN EVEN A PARTIAL INTEREST IN THE IDEA OR INVENTION TO THE INVENTION DEVELOPER, THE INVENTION DEVELOPER MAY HAVE THE RIGHT TO SELL OR DISPOSE OF THE IDEA OR INVENTION WITHOUT YOUR CONSENT AND MAY NOT HAVE TO SHARE THE PROFITS WITH YOU.

THE TOTAL NUMBER OF CUSTOMERS WHO HAVE CONTRACTED WITH THE INVENTION DEVELOPER SINCE (date) IS ..... THE TOTAL NUMBER OF CUSTOMERS KNOWN BY THIS INVENTION DEVELOPER TO HAVE RECEIVED, BY VIRTUE OF THIS INVENTION DEVELOPER'S PERFORMANCE, AN AMOUNT OF MONEY IN EXCESS OF THE AMOUNT PAID BY THE CUSTOMER TO THIS INVENTION DEVELOPER IS .....

THIS CONTRACT DOES NOT PROVIDE ANY PATENT, COPYRIGHT, OR TRADEMARK PROTECTION FOR YOUR IDEA OR INVENTION. YOU ARE ENCOURAGED TO CONSULT WITH A QUALIFIED ATTORNEY BEFORE SIGNING THIS CONTRACT. BY PROCEEDING WITHOUT THE ADVICE OF A QUALIFIED ATTORNEY, YOU COULD LOSE ANY RIGHTS YOU MIGHT HAVE IN YOUR IDEA OR INVENTION.

(2) The invention developer shall complete the cover sheet with the proper information to be provided in the blanks. The invention developer shall insert in the first blank the date the invention developer began business or the effective date of this act, whichever is later. The numbers to be inserted in the last two blanks may be rounded to the nearest one hundred and do not need to include those who have contracted within the three immediately preceding calendar months or parts thereof. If the number to be inserted in the third blank is zero, it shall be so stated.

(3) The cover sheet shall only contain the information required by this section and the name, primary office address, and local office address of the invention developer.

Sec. 5. With respect to every contract for invention development services, the invention developer shall deliver to the customer at the address specified in the contract, at least at quarterly intervals throughout the term of the contract, a written report which identifies the contract and which includes:

(1) A full, clear, and concise description of the services performed up to the date of the report and of the services yet to be performed; and

(2) The name and address of each and every person, firm, or corporation to whom the subject matter of the contract has been disclosed, the reason for each and every disclosure, the nature of the disclosure, and copies of all responses received as a result of those disclosures.

Sec. 6. Every contract for invention development services shall set forth in boldface of at least ten-point type the following:

(1) The terms and conditions of payment and contract termination rights required by section 3 of this act;

(2) A full, clear, and concise description of the specific acts or services that the invention developer undertakes to perform for the customer. To the extent that the description of the specific acts or services affords discretion in the invention developer as to what specific acts or services will be performed, the invention developer shall be deemed a fiduciary;

(3) A statement as to whether the invention developer undertakes to construct, sell, or distribute one or more prototypes, models, or devices embodying the customer's invention;

(4) The name and principal place of business of the invention developer and the name and principal place of business of any parent, subsidiary, or affiliated company that may engage in performing any of the invention development services;

(5) If any oral or written representation of estimated or projected customer earnings is given by the invention developer, a statement of that estimation or projection and a description of the data upon which it is based;

(6) The name and address of the custodian of all records and correspondence pertaining to the invention development services and a statement 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 of not less than two years after expiration of

the term of the contract for invention development services, which records and correspondence shall be made available to the customer or his or her representative for review and copying at the customer's reasonable expense on the invention developer's premises during normal business hours upon seven days' written notice; and

(7) A statement setting forth a time schedule for performance of the invention development services, including an estimated date by which performance of the invention development services is expected to be completed.

Sec. 7. (1) Any contract for invention development services which does not substantially comply with the Invention Development Services Disclosure Act shall be voidable at the option of the customer. Any contract for invention development services entered into in reliance upon any false, fraudulent, or misleading information, representation, notice, or advertisement of the invention developer shall be voidable at the option of the customer. Any waiver by the customer of any of the provisions of the act shall be deemed contrary to public policy and shall be void and unenforceable.

(2) Any customer who has been injured by a violation of the 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 the act may recover in a civil action against the invention developer, in addition to reasonable costs and attorney's fees, the amount of actual damages sustained by the customer.

(3) If a customer establishes a claim and secures judgment on such claim under subsection (2) of this section, an amount up to two times the judgment may be recovered from the invention developer, if ordered by the court. Any amount recovered pursuant to this subsection shall be placed in a fund to be distributed to the common schools of this state.

(4) A substantial violation of any provision of the act by an invention developer or the execution by the customer of a contract for invention development services in reliance on any such false or fraudulent statements, representations, or material omissions shall establish a rebuttable presumption of injury.

Sec. 8. (1) For purposes of enforcing the Invention Development Services Disclosure Act, the Attorney General may conduct investigations, hold hearings, and compel the attendance of witnesses and the

production of accounts, books, and documents by the issuance of subpoenas.

(2) The Attorney General shall enforce the act and may recover a civil penalty not to exceed three thousand dollars for each violation of the act and seek equitable relief to restrain any violation.

Sec. 9. (1) Every invention developer rendering or offering to render invention development services in this state shall maintain a bond issued by a surety company holding a certificate of authority to transact business in this state, the principal sum of which shall not be less than twenty-five thousand dollars in the first or any subsequent year of operation. The invention developer shall file a copy of the bond with the Secretary of State prior to the time the invention developer first commences business in this state or within ninety days after the effective date of this act, whichever is later, and shall pay an initial filing fee of one hundred dollars. The invention developer shall file an annual statement that the bond is current and shall pay a filing fee of twenty-five dollars on or before July 1 of each year after the initial filing.

(2) The bond shall be in favor of the State of Nebraska for the benefit of any person who, after entering into a contract for invention development services with an invention developer, is injured by fraud, dishonesty, or failure to provide the services of the invention developer in performance of the contract. Any person claiming against the bond may maintain an action at law against the invention developer and the surety. The aggregate liability of the surety to all persons for all breaches of conditions of the bond shall not exceed the amount of the bond.

Sec. 10. Nothing in the Invention Development Services Disclosure Act shall limit any obligations, rights, or remedies that might otherwise be applicable or available under the law of this state.