I. Introduction

Intellectual property (IP) issues often arise in employment law matters, including disputes with departing employees over trade secrets and customer lists, questions regarding ownership of IP developed or discovered by an employee, and rights of an employer to develop new products and lines of business by hiring executives away from other companies excelling in the manufacture of such products. Although not all IP disputes can be avoided, many can with some advance planning. Business lawyers aware of these issues can provide a great service to their clients.

As noted at the end of Chapter 1, three basic IP-related concerns arise in the employment context. First, a business must ensure that all IP created by its employees in the course and scope of employment...
belongs to the business. If the employer utilizes independent contractors and other consultants in its business, it must take additional steps to ensure that it will own or secure adequate rights to utilize the IP created pursuant to the contract. Second, businesses must take care to ensure that employees do not misappropriate the employer’s IP. Finally, businesses must educate employees about the IP of others to ensure that such rights are not infringed. Each of these concerns is discussed in detail in the sections that follow.

**Traps for the Unwary**

1. Employers must plan in advance to obtain and protect ownership of IP; calling their lawyers after employees leave to set up competing businesses or to join competitors is too late.
2. The copyright principle known as the “work-for-hire doctrine” is limited in its application: it applies only to employees and some independent contractors. Pursuant to the doctrine, an employer will own the copyrights in works of authorship created by employees in the course and scope of their employment, but will not own the copyrights in works created by independent contractors unless the appropriate written agreement has been obtained.1
3. To protect trade secrets, it is essential for companies to engage in reasonable efforts to maintain the secrecy of such information, but claiming that everything used in a business is a trade secret is not the way to do it. Instead, companies should identify their key trade secrets and institute a trade-secret protection policy focused on them.
4. Noncompete agreements may prevent employees from leaving with knowledge and information and competing with the employer, but in some jurisdictions they must be supported by legally adequate consideration (e.g., a promise to disclose trade secrets and/or provide specialized training) and in all cases must be carefully drafted to ensure that they are “reasonable” (and therefore enforceable) under applicable law. Further, some jurisdictions limit the enforceability of even a seemingly “reasonable” restriction.

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5. Employers who want to obtain instant expertise in a particular area by hiring top talent from their competitors should think twice. Employers who hire from competitors must be aware of the risk of lawsuits for misappropriation of trade secrets and other proprietary information.

6. Employers should be aware that pursuant to U.S. patent law, particularly in the America Invents Act (AIA), the disclosure of trade secrets or other confidential information between a former employee and a new employer (and possibly between the trade secret owner and the employee) may trigger the one-year grace period in which to file a patent application.

7. Although the inventions of an employee who is “hired to invent” may belong to their employer, it is recommended that appropriately worded Invention Assignment Agreements be obtained.

8. Employers should be aware that pursuant to the Federal Defend Trade Secrets Act of 2016 (DTSA), they must update their employment manuals, policy manuals, or contracts to alert both employees and independent contractors of certain immunities under the DTSA, particularly if they wish to preserve certain remedies under the DTSA.

II. Ensuring Ownership of IP Created by Employees

Much of the IP-related litigation that arises between employers and employees concerns the ownership of IP created by an employee (or former employee) during his or her employment. Typically, such claims arise when an allegedly employee-generated idea, work of authorship, or invention is successfully utilized by a company to generate income. The more successful and profitable the idea, work, or invention, the more likely there will be employees who believe that they “deserve” a portion of the profits. This is particularly true in the case of companies that do not have clear policies regarding the ownership of employee-generated IP.
High-tech and biotech companies, record labels, and movie studios are not the only businesses that thrive or fail based on their intellectual capital, and they are not the only companies that should worry about potential IP ownership claims by current and former employees. Manufacturing, service, oil field services, food service, distribution, and many other types of businesses create and rely on IP. If a company wishes to secure ownership of all IP created by its employees, it must first identify the IP that it owns and is creating and, next, take whatever steps are necessary to secure and record ownership of such rights.

A. Identifying IP

Chapters 1 and 10 contain detailed descriptions of the various types of IP and information about how to identify IP that may be lurking in a client’s business. The following is a brief discussion of those rights that are likely to be possessed by most employers.

1. Copyrights

Copyright protection is granted by federal law to “original works of authorship fixed in tangible form.” Given that the requirement of “originality” means only a modicum of creativity, and copyright protection automatically attaches to a work once it is “fixed,” every company is likely to create copyrightable works. The nature and extent of these works will depend on the nature of a company’s business, but chances are there are at least some copyrighted works in every company.

To determine whether and to what extent a company owns copyrightable materials, it is important to first consider the list of works of authorship that is set forth in the Copyright Act. U.S. law defines “works of authorship” to include:

a. literary works;

b. musical works, including any accompanying words;

c. dramatic works, including any accompanying words;

d. pantomimes and choreographic works;

e. motion pictures and other audiovisual works;

f. sound recordings; and

g. architectural works.

2. 17 U.S.C. § 101 et seq. (the Copyright Act).
Although a brief review of this list might suggest that only companies that are engaged in the creative arts are likely to create copyrightable works, this is not the case. The listed terms have been defined by statute and court decisions to include a wide variety of business information, including manuals, charts, diagrams, technical drawings, architectural and engineering plans, computer software, and training videos. Thus, the question for most companies is not whether they own copyrightable works, but whether such works are worth protecting and registering.

2. Patents

Patents are easy to identify because, unlike copyrights, they do not come into existence automatically but must be granted by the U.S. Patent and Trademark Office (USPTO) or a foreign country. If granted, these rights are documented in written “letters patent” and are recorded with the applicable patent authorities. They may also exist in the form of an application for a provisional patent and pending patent applications that may or may not give rise to an issued patent.

Companies that have gone to the time, trouble, and expense of obtaining patent rights know that such rights exist; however, some companies may not realize that they are creating potentially patentable inventions or that their employees, even if not formally engaged in research and development activities, may create new patentable inventions.

To plan ahead, companies must understand that the scope of potentially patentable inventions is rather broad. It includes not only physical items such as tools, machinery, and devices, but also processes, chemicals, software, and some business methods. In addition, be aware that there are three types of patents under U.S. law that protect different types of inventions or creations: utility patents, design patents, and plant patents.

3. Trade Secrets

Potentially patentable inventions are likely to be trade secrets until a patent application is filed and disclosed. However, the scope of trade secret protection is not limited to information that falls within the scope of patentable subject matter. Trade secrets are governed by

6. Id. §§ 101, 161, 171; but see Alice Corp. v. CLS Bank Int’l, 134 S. Ct. 2347 (2014).
common law or by state statute (usually based upon the Uniform Trade Secrets Act) and, following the adoption of the Defend Trade Secrets Act of 2016 (DTSA), by federal law. They provide protection against misappropriation of a formula, pattern, device, compilation of information, program, method, technique, or process that has value to a business, that is not generally known in the industry, and that is subject to reasonable efforts to protect its secrecy.

4. **Trademarks and Service Marks**

Trademarks and service marks are protected to some extent by both federal and state law (either common law or statutory filing schemes). Generally, trademark law protects any word, phrase, logo, or other device that serves to identify the source of goods or services. The definition of protectable trademarks and service marks has been held to include trade dress, including the appearance of product packaging and the interior and exterior designs of businesses, the shape and configuration of products, the color and scent of a product, and sound marks.

Because the scope of trademark and service mark protection is not well-known or understood by all companies, a company may create trademarks and service marks without knowing it is doing so. This is because trademark rights in the United States can be acquired through usage and need not (although it is recommended) be registered. Thus, it is important for a company to understand all of the things that may constitute trademark and service mark rights and to take the necessary steps to protect what it believes are the most important and valuable of these rights.

5. **Ideas and Know-How**

Not everything that is useful or valuable to an employer fits neatly into one of the listed categories of IP. “Ideas” and “know-how” that assist an employer in increasing productivity, lining up new markets, or otherwise distinguishing itself as a successful company may be protectable as trade secrets, may be sufficiently novel to be potentially patentable,
or may be reduced to a form of expression and entitled to copyright protection. In addition, in limited circumstances, ideas and know-how that are not eligible for protection as one of the types of IP described above may be protectable based on principles of contract law.\^\textsubscript{12}

Given their ill-defined nature, the biggest risk that ideas pose to employers is usually not the failure to secure ownership in them, but rather the claims that can arise when an employer uses an employee’s ideas under circumstances that may lead the employee to believe she is owed additional compensation.

**B. The Rules of IP Ownership**

Employers often assume that because they pay their employees a salary, all IP developed by their employees belongs to them. Unfortunately, this is not necessarily true. Each type of IP already discussed has its own particular issues in determining ownership and rights of use, and if a company wants to be certain that it owns the IP created by its employees, the best practice is to document its ownership in writing.

1. **Copyrights**

The ownership of copyrights is specified in the Copyright Act, although some state laws, such as community property laws, may affect this ownership.\^\textsubscript{13} The presumptive rule is that the author (creator) of a work of authorship is the owner of the copyrights therein.\^\textsubscript{14} However, U.S. copyright law recognizes three limited exceptions to this rule. First, works that are jointly prepared by two or more authors “with the intention that their contribution be merged into inseparable or interdependent parts” are owned jointly by their authors.\^\textsubscript{15} Second, individuals and companies can acquire copyrights in a work (in whole or in part) through a purchase, inheritance, or by other means of conveyance.\^\textsubscript{16} Third, and most important for employers, copyrights in a work of authorship will be deemed under the Copyright Act as owned

\^\textsubscript{12} Epstein, supra note 9, at Ch. 6; Peter A. Alces & Harold F. See, The Commercial Law of Intellectual Property § 7.3 (Little, Brown & Company 1994, Wolters Kluwer 2016).

\^\textsubscript{13} See, e.g., Rodrigue v. Rodrigue, 218 F.3d 432 (5th Cir. 2000).

\^\textsubscript{14} 17 U.S.C. § 201.

\^\textsubscript{15} Id. § 201(a). If a work consists of a number of separate contributions, then the work is considered a collective work, and the copyrights in each separate contribution will be owned by their respective authors with the copyrights in the collective work owned by whoever created such work. Id. § 201(c).

\^\textsubscript{16} Id. § 201(d).
by the employer if an employee creates the work in the course and scope of his or her employment.\textsuperscript{17}

The last rule is not the case when the work is developed by a consultant or third-party contractor rather than by a person that meets the legal definition of an “employee.” In such cases, the employer will own the copyrighted work only if: (1) the work of authorship falls within one of nine statutorily specified types of works, and there is a written “work-for-hire agreement” between the creator of the work and the person or company who commissioned its creation; or (2) the copyrights are assigned in writing by the consultant or contractor. The nine types of works that may qualify as works for hire under the first listed circumstance are limited by statute to a contribution to a collective work, part of a motion picture or other audiovisual work, a translation, a supplementary work, a compilation, an instructional test, a test, answer material for a test, and an atlas.\textsuperscript{18}

2. Patents

Unlike the Copyright Act, no provision of the Patent Act directly addresses the ownership of patentable inventions. Rather, ownership of patentable inventions generally is governed by common-law principles that also apply to ideas and trade secrets. The presumptive rule is that the individual inventor (or the “joint inventors”), not his or her employer, owns the invention.\textsuperscript{19} This rule is reflected most clearly in section 111 of the Patent Act, which provides that all patent applications “shall be made, or authorized to be made, by the inventor.”

The ownership of patented inventions is ordinarily determined by looking at the “inventor” and “assignee” lines of an issued patent. Keep in mind, however, that because patent rights exist only once a patent is granted, state law, or possibly federal law in the case of the DTSA, will likely govern the ownership of ideas, inventions, and trade secrets for which no patent has been issued. (See discussion of ownership of trade secrets and ideas that follows.)

\textsuperscript{17} Id. § 101 (definition of “work made for hire”).
\textsuperscript{18} J\textsuperscript{ames E. Hawes \& Bernard C. Dietz, Copyright Registration Practice Ch. 6 (Thomson Reuters 2017).}
\textsuperscript{19} 35 U.S.C. §§ 111, 115–118. The AIA defines a “joint inventor” or “coinventor” to be any one of the individuals who invented or discovered the subject matter of a joint invention. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 285 (2011) (codified at 35 U.S.C. § 100(g)).
Prior to the effective date of the America Invents Act (AIA), all patent applications had to be filed in the name of the inventor, and the inventor’s cooperation was needed to successfully prosecute a patent application. Under the AIA, if the employee-inventor has assigned his or her rights, the patent application can be filed by the employer-assignee. Thus, the best practice is for employers to secure ownership of potential patent rights through what is known as an “invention assignment agreement.” As with all agreements with employees, these agreements should be carefully drafted so as not to overreach and claim too much.

In the event that an invention assignment agreement is not secured, some judicially created doctrines may allow an employer to claim, if not the ownership of the invention, at least the right to use the invention. First, an employer may be able to prove that it owns the patent and trade secret rights in an employee’s invention because the employee was “hired to invent.” Second, even if the employee was not hired to invent, if the invention was developed on the employer’s time and in the scope of the employer’s business, the employer may have limited “shop rights” (meaning the right to use the patent in its business). As will be discussed, it is important to document the conditions entitling an employer to (1) an assignment of a patent because the inventor was an employee who was hired to invent, or (2) shop rights because an employee developed the invention on company time and in the scope of the employer’s business.

3. Trade Secrets, Ideas, and Know-How

Although the DTSA provides a federal cause of action for misappropriation of trade secrets (to possibly include confidential ideas and know-how), it does not directly address the ownership of trade secrets; thus, the foregoing rules with respect to patentable inventions are likely

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22. Note that some states have enacted specific state statutes concerning invention assignment agreements. In California, such agreements are limited in scope. See Calif. Labor Code §§ 2870–2872. Nevada law provides that any invention made by an employee in the course and scope of his or her employment belongs to the employer. See Nev. Rev. Stat. § 600.500.

23. Dorr & Munch, supra note 21, at Ch. 4.
to apply. However, given that the DTSA defines the “owner” of a trade secret as “the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed,” it remains to be seen whether federal courts will develop a different set of ownership rules. Considering that one of the reasons for the adoption of the DTSA was to reduce uncertainty in trade secret protection due to variances in individual state laws, perhaps federal courts will develop federal rules of decision or federal common law regarding ownership of trade secrets. In the meantime, the laws of each state in which a company is located must be evaluated to determine the applicable ownership rules. In some states, these rules may be found only in case decisions. In other states like California and Nevada, statutes address the ownership of employee-created ideas, inventions, and trade secrets. Generally, however, the applicable rules of ownership can be modified by “reasonable” contract terms. For that reason, documentation of the terms and conditions of employment and ownership of these rights is very important.

4. Trademarks and Service Marks

The rights in trademarks and service marks are generally owned by the company that uses such marks. The principal exceptions to this rule are when marks are used pursuant to a license or by related companies. (See Chapters 5 and 20 for information on the use of marks by licensees and franchisees.) Thus, unless an employee might claim that a particular trademark or service mark was his or her “idea,” disputes concerning the ownership of trademarks and service marks are unlikely to arise between an employer and employee.

C. Obtaining Ownership of IP for the Employer

As indicated in the foregoing sections, an employer is not automatically the owner of all IP created or developed by its employees. The employer must consult with its counsel to institute the necessary policies to ensure it obtains ownership of this valuable property. This may include drafting employment manuals and workplace rules and policies that address this issue, but employment policies alone are not

It is important for employers to obtain clear, timely, and written agreements that spell out the ownership of all copyrights, inventions, trade secrets, and ideas that an employee conceives of or develops during his or her employment, particularly in the case of employees who are engaged in research and development or who routinely create copyrighted works. Depending on the type of IP involved, the written agreement may take the form of an “invention assignment agreement,” a “work-for-hire agreement,” a “copyright assignment,” a “noncompete agreement,” a “confidentiality agreement,” or some combination of all five. (See Chapter 23 for more details on the particulars of IP assignments and be aware that some assignments must be in writing and should be recorded with the appropriate government agencies.)

For a number of reasons, if an employer has a choice between obtaining a copyright assignment or a work-for-hire agreement from an independent contractor (see previous discussion of difference), it should opt for a work-for-hire agreement. The principal reason for this decision is that, unlike copyright assignments, a work-for-hire agreement is not subject to termination in the future. Pursuant to section 203 of the Copyright Act, the exclusive or nonexclusive grant of a transfer or license of copyright is subject to termination during a five-year period beginning at the end of 35 years from the date of execution of the grant.27 Another reason for this preference is that the moral rights of attribution and integrity that are applicable to works of visual art do not attach to works made for hire.28

As noted, not all works of authorship created by independent contractors qualify for treatment as works made for hire. Thus, in addition to opting for a work-for-hire agreement if it applies, many employers are well-advised to opt for employees rather than independent contractors if their business is highly dependent on the creation of copyrighted works. This is because the works of employees are considered works made for hire even in the absence of a written agreement and are therefore automatically entitled to the benefits noted in the preceding paragraph.

The laws of the various states differ on the issue of what constitutes an enforceable invention assignment agreement. California law,

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27. Due to the effective date of the 1976 Copyright Act on January 1, 1978, and the triggering date of the termination right thereunder, the first license or assignment subject to the termination right specified in the 1976 Copyright Act (as opposed to that specified in the 1909 Copyright Act) occurred on January 1, 2013. See Chapter 10 for a more detailed discussion of the termination right under U.S. copyright law.

for example, provides that such agreements are unenforceable concerning the following:

[A]n invention that the employee developed entirely on his or her own time without using the employer’s equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer’s business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.29

Without such a statutory restriction, employers might be tempted to claim ownership of all inventions or ideas their employees conceive of during their employment whether related to their work for the employers or to use a “grant-back” provision that claims ownership of inventions that are developed by a former employee after his or her employment ended. However, as with all contracts, a judge may be unwilling to enforce an agreement if it overreaches and is unreasonable. Thus, it is generally recommended that at a minimum, the scope of invention assignment agreements be limited to processes, inventions, works, know-how, and ideas that are related to the course and scope of employment. The applicable laws of the state where the employee is located should be researched to determine whether any special rules exist.

D. Protecting IP Once Ownership Is Secured

Once an employer is certain it has identified existing IP and has secured its ownership in the IP, it should decide whether and to what extent it wants to expend money and effort to protect such rights through available registration, business, contractual, and litigation strategies. In Chapter 1, the various statutory methods of protecting copyrights, patents, trademarks, and trade secrets are described in detail. In the section that follows, business, contractual, and litigation strategies are discussed. (See also Chapters 19 and 23.)

III. Preventing Employees from Misappropriating and Infringing the Employer’s IP

Once an employer has obtained ownership of IP, it must take steps to protect such ownership. This may include protection against third parties, but all too often also includes protection against one’s own employees.

A. General Business Strategies

1. Education and Counseling

As the foregoing discussion illustrates, there are a number of misunderstandings and misconceptions about the scope and ownership of IP. If these misunderstandings and misconceptions can exist among educated business lawyers and corporate executives, it is easy to understand how they may also exist among employees. Thus, one of the ways an employer can reduce the likelihood of its IP being misappropriated or infringed is to educate its employees. At a minimum, employees should be informed of the nature and identity of the IP the employer claims. The agreements discussed in the preceding and following sections obviously perform an educational function, but more specific strategies, such as workshops on IP law, should also be considered.

If an employee is hired with the expectation that his or her work will involve the development of products or procedures in which the employer will or may own the IP, such as software, customer lists, or special formulas for restaurants, it is imperative that the employee be instructed in the proper method of dealing with that protected information. Some efforts may be within the realm of the pure IP lawyer, rather than the business lawyer or the employment lawyer, but even business and employment lawyers should be familiar with the general outlines of the issues so that IP specialists can be retained when necessary. If potentially patentable inventions are involved, employees must understand that any disclosure of such inventions will likely waive potential patent protection in countries outside of the United States and, within the United States, will trigger the one-year grace period in which to file a patent application. Thus, the disclosure of potentially
patentable inventions (both inside and outside a company) should be restricted and carefully managed.

2. The Employment Manual and Policies

One way to educate employees about their duties concerning an employer’s IP is to include a discussion of those rights and duties in the employer’s employment policies and manuals. However, as noted in the following section, this is not a substitute for specific written agreements with all employees who are directly engaged in inventive or creative activities. The DTSA allows the required whistleblower notice (discussed below) to be given in general employment policies and manuals, but separate agreements with individual employees are recommended with respect to other IP issues.

3. Written Agreements

Another way to educate employees about their duties concerning an employer’s IP is to obtain a written agreement in which each employee: (1) acknowledges the existence of the employer’s IP; (2) agrees that the employer owns any IP created during the course and scope of employment; (3) promises not to disclose confidential information, including inventions and trade secrets; (4) promises to notify the employer immediately if any disclosures occur; and (5) promises not to infringe or misappropriate the employer’s IP. These agreements can take many forms, from an all-encompassing “employment agreement,” to a series of agreements that are IP-specific (e.g., an invention assignment agreement, a work-for-hire agreement, and a copyright assignment agreement). The DTSA makes it critical that such written agreements, manuals, or policies alert the employees as to certain immunities to claims of misappropriation of trade secrets if the employer wishes to preserve the possibility of certain remedies under the DTSA (discussed below at Part III-C). Those immunities permit an employee or independent contractor to disclose a trade secret in confidence to a federal, state, or local governmental official or an attorney, solely for the purpose of reporting or investigating a suspected violation of law, or to disclose a trade secret in a complaint or other document filed under seal in a lawsuit or other proceeding.30

Three other forms of agreements employers often use to educate employees and protect IP (particularly trade secrets) are “noncompete agreements,” “confidentiality agreements” (a.k.a. nondisclosure agreements), and “nonsolicitation agreements.” Given that all three of these agreements are considered to be restraints on trade, they are not enforceable unless carefully drafted, and state laws vary regarding limitations on the scope and enforceability of such agreements. Generally, where enforceable, they must be reasonable in that they protect a legitimate business interest (such as trade secrets or business goodwill) and their duration, geographic scope, and description of activities proscribed do not exceed what is necessary to protect the legitimate business interest. For this reason, even when a noncompete agreement with an employee is held unenforceable, a confidentiality or nonsolicitation agreement may be upheld.

4. The Exit Interview

The use of exit interviews with employees can be helpful in ensuring that an employer’s IP is not infringed or misappropriated. These interviews afford the employer an opportunity to learn about any employee-generated inventions, obtain copies of any confidential information in the employee’s possession, and obtain a reaffirmation from the employee that he or she will not disclose any confidential information. Such termination procedures also have been cited by courts as evidence of reasonable efforts that are necessary for trade secret protection.

As a practical matter, if an employee refuses to acknowledge the confidential nature of information, the employer will be aware of the possible breach of confidence and may take other defensive measures. Alternatively, if the employee does acknowledge the existence of a trade secret but later breaches his or her obligation of confidentiality, the employer’s burden of proof in litigation may be more easily met.

31. There are actually two types of nonsolicitation agreements: nonsolicitation of customers, and nonsolicitation of other employees. Although the first type generally receives more scrutiny as a restraint of trade, the second may be receiving additional scrutiny from the United States Department of Justice and the Federal Trade Commission as noted in their Antitrust Guidelines for Human Resource Professionals (Oct. 2016).

E. Strategies That Are IP-Specific

1. Copyrights

Depending upon the type of work of authorship, the Copyright Act gives the owner of a qualifying work of authorship several affirmative and exclusive rights. These include the exclusive rights to: reproduce the work; prepare derivative works; distribute copies of the work, such as by sale; perform the work publicly; and display the work publicly.\(^\text{33}\) In addition, the owner of the copyright may license others to utilize these rights in whole or in part.\(^\text{34}\)

As noted in Chapter 1, it is generally recommended that copyright owners register their copyrights with the U.S. Copyright Office and include a copyright notice on all works that are distributed publicly. Although these measures are not necessary to secure copyright protection, they are needed to preserve certain remedies for infringement, and for U.S. authors, registration is a prerequisite to bringing a copyright infringement claim in U.S. courts.

Employees who create works of authorship in the course and scope of their employment may not be aware that copyrights in those works are automatically owned by their employer pursuant to the work-for-hire doctrine, and that employees are restricted by copyright law from utilizing those works in the future without the consent of their employer. Thus, particularly upon the departure of an employee, it is good practice for employers who generate copyrightable works to educate their employees about copyright law and to clearly identify that those works may not be used by the employee for personal use or for the benefit of a new employer. Alternatively, if necessary to attract good talent or in accordance with industry norms, employers may want to assign or license selected copyrights to their current and former employees.

2. Patents

Unlike copyright registration which, absent an unusual situation, is routinely granted, a patent is issued only after examination and scrutiny by an examiner of the USPTO or a foreign patent office. Utility and plant patents are generally valid for 20 years from the date the patent

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34. See generally, Epstein, supra note 9, at Ch. 4.
application was filed. A design patent is valid for 14 years from the date the patent is granted.

The effect of the grant of a utility patent is that the owner has the right to exclude others from making, using, offering for sale, or selling the invention, or importing the invention into the United States. Therefore, as with copyrights, if an employer owns patent rights, it has the right to prevent current and former employees from utilizing its patented inventions. By definition, however, patent rights do not extend to general knowledge and scientific principles, including the general know-how that employees gain through experience.

3. Trade Secrets

Protection of trade secrets is one of the most important considerations in the employment context. Unlike copyrights that are protected as a matter of federal law upon creation and fixation (and that receive greater protection by federal registration), or patents that are protected upon the issuance of a patent by the USPTO, trade secrets are not protected by any state or federal filing or registration procedure. They are protected only if they are, in fact, secret and their secrecy is maintained.

Means for protection of trade secrets will vary with the type of information involved and the nature of the employer’s use of the information. Unfortunately, an employer’s subjective beliefs regarding the existence of a valid trade secret, the adequacy of steps taken to keep it secret, and the existence of a confidential relationship between the employer and third parties may be tested only when it files suit for misappropriation. If the employer has not taken the necessary steps to maintain secrecy, it may be too late to protect its interest in the information or materials.

Concerning employees, the employer should allow only those employees who need to know or use the employer’s trade secrets to have access to them and should require those employees to expressly agree that they have a duty to preserve the confidentiality of the trade secrets and other confidential information. The employer should utilize good security procedures, including such simple measures as locking up

36. Id.; see generally, Epstein, supra note 9, at Ch. 5.
38. Epstein, supra note 9, at Ch. 2; Dorr & Munch, supra note 21, at Ch. 2; Alces & See, supra note 12, at Ch. 3.
confidential material when not in use, limiting access to computer data by passwords, and prohibiting employees from removing trade secret documentation from the office or area in which it is used. Sensitive materials should be shredded rather than discarded.

The enormous amount of information stored on or available through computers makes it essential that employers consider how e-mail, electronic transmission, cloud computing, and other communication systems and devices are used within their businesses and how access to the information stored on or available through their computers and mobile devices should be limited or allowed.

The employer must educate its employees and others allowed access to confidential information regarding the need to preserve it in secrecy. Simple inattention is a common problem that can be reduced by sensitizing employees to the need for confidentiality. This education can be accomplished through training meetings, circulation of written policies regarding trade secret protection, and placement of signs and posters in the workplace.

Counsel to the employer can assist in drafting policies and procedures and in auditing the employer’s compliance with those procedures. Failure to enforce written policies for the protection of trade secrets can be as damaging as the failure to adopt any policies.

It is also important to recognize that trade secrets are protected only against misappropriation, such as by theft, bribery, misrepresentation, breach of a confidential relationship, or industrial espionage. Although cases of true espionage exist, most trade secret misappropriation cases (more than 90 percent according to one empirical study) arise through breach of a confidential relationship. A court can find the existence of a confidential relationship without a written contract or confidentiality agreement, but the existence of a written agreement eases the burden of proof. At a minimum, there must be evidence that the employer notified the employee or third party that the information was considered confidential and was to be held in confidence.

General policies afford some protection for a company’s trade secrets, but employers should insist on specific confidentiality agreements with employees who have access to trade secrets (see preceding discussion of these agreements). The necessary contents of a confidentiality agreement (also known as a nondisclosure agreement or NDA) will vary depending upon the relationship between the parties and their relative bargaining positions, but at a minimum should: (1) acknowledge the existence of a confidential relationship and an
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obligation to maintain secrecy; (2) identify the existence of trade secrets and other confidential information; (3) restrict the employee's right to further use, disclose, or communicate the trade secret and confidential information or material; (4) require the employee to return all evidence of the trade secret and confidential information or material upon termination of the employment relationship; (5) acknowledge that damages or injuries would inevitably result from disclosures; and (6) stipulate the necessity of injunctive relief.

A confidentiality agreement will not prevent an employee from leaving and using the general skill and knowledge gained in the course of his or her employment, but it can prevent use of actual trade secrets and other confidential information. For purposes of a potential trade secret claim, the critical issue will be whether the former employee possesses or has knowledge of information that constitutes a trade secret, such as an employer's list of customers. Generally, whether a customer list constitutes a trade secret depends a great deal on the jurisdiction in which a trade secret misappropriation claim is brought. In many instances, courts have held that a customer list is not a trade secret if the customers on the list are (or could be) known to anyone in the industry through telephone books, trade association membership directories, and other public sources.

Sometimes, a noncompete or nonsolicitation agreement will enable an employer to preserve the competitive advantage it enjoys with existing customers through an injunction prohibiting a former employee from contacting, soliciting, or selling to the employer's customers for some specified period. Enforcement of noncompete agreements is intensely fact-dependent and tends to vary not only between jurisdictions, but even within the same jurisdiction.

If an exit interview reveals an employee is leaving to begin work with a competitor, or the employer has other reason to believe that its trade secrets or other confidential information have been or are about to be disclosed, the employer may want to consider immediately notifying any third person it believes may obtain this information. Under both the Uniform Trade Secrets Act and the DTSA, third parties who have notice that materials they receive constitute trade secrets can also be liable for misappropriation. Consequently, an employer who gives actual notice to a third party will be relieved of the burden of having to prove that the circumstances were such that the third party should have known of the improper disclosure of the employer's trade secrets. Before advising an employer to pursue this course of action, counsel should make the
employer aware of and discuss the possibility of defamation, tortious interference, and unfair competition claims by the former employee or the third party.

F. Litigation

Litigation against employees or competitors for misappropriating trade secrets or infringing other IP may be necessary. The first step in the litigation process will often be to seek a temporary restraining order or a preliminary injunction pending the conclusion of a trial on the merits. Although the exact test for such preliminary relief will depend on compliance with the requirements of the DTSA if proceeding under that act, or with applicable state law and procedure and the jurisprudence of the court where the case is filed, the employer should be prepared to show there is no adequate remedy at law, that it will suffer irreparable injury if an injunction is not issued, and that there is a strong likelihood of success on the merits, or at least a strong balance of competing equities in its favor. Further, an employer seeking an injunction based on misappropriation of its trade secrets must be prepared to demonstrate there is a real threat of imminent disclosure of its trade secrets.

Assuming that the employer successfully proves its case at trial, a court may order several “permanent” remedies. Usually the most desirable is a permanent injunction against use of the employer’s IP. Depending upon the jurisdiction and the facts, the injunction may last indefinitely or for a limited time. For instance, both the DTSA and the trade secret laws of most states permit an injunction to be later terminated if the trade secret has ceased to exist, as would occur if the information became public knowledge either through disclosure by the plaintiff or by independent development and disclosure. Additionally, all of the IP regimes discussed allow an injured party to recover monetary damages, although the four regimes differ somewhat on what type of evidence is required to prove entitlement to a monetary award.

The DTSA has a number of provisions new to trade secret law that can arise in litigation between employers and employees. The first is a new form of preliminary relief known as an “Ex Parte Civil Seizure Order” that is designed to prevent the improper dissemination of trade secret information related to a product or service used in, or intended

for use in, interstate or foreign commerce.\textsuperscript{40} This remedy should be considered when there is a threat that a current or former employee will disclose trade secrets before a temporary restraining order or preliminary injunction can be obtained.

Second, the DTSA includes a whistleblower immunity that applies to any alleged trade secret misappropriation under state or federal, and civil or criminal law. This means that employees can disclose trade secrets to attorneys and governmental officials under specified circumstances. Importantly for employers, unless they have documented notice to employees and contractors of the instances in which they will have immunity from claims of misappropriation (see Part III-A-3 above), the employer will not be able to recover exemplary damages or attorney’s fees for trade secret misappropriation.

Finally, employers should be aware that under the Economic Espionage Act of 1996,\textsuperscript{41} theft of trade secrets may constitute a federal crime and that similar state laws exist in many states. Although not all cases of theft of trade secrets are prosecuted due to limited resources, in an appropriate case, the possibility of a federal prosecution exists. Additionally, the federal Computer Fraud and Abuse Act\textsuperscript{42} makes it illegal for individuals, including employees, to hack into or exceed access to protected computers, which may apply to acts of employees occurring during or after their employment.

Employers should be aware that lawsuits against former employees are increasingly being met with tactical counterclaims filed under anti-SLAPP\textsuperscript{43} statutes.\textsuperscript{44} In some jurisdictions, an anti-SLAPP counterclaim can be used to frustrate a former employer’s attempt to obtain immediate injunctive relief and expose it to the risks that (1) its lawsuit will be dismissed with prejudice, and (2) it will be held liable to its former employee for attorney’s fees and sanctions.\textsuperscript{45} Similarly, employers should anticipate that the DTSA’s whistleblower immunity will be raised by employees who assert that they took trade secrets solely for the purpose of reporting improper behavior by their employers.

\textsuperscript{40} It remains to be seen how this provision of the DTSA will be applied, but if it is in fact applied ex parte, it may be more useful than a state court temporary restraining order.
\textsuperscript{41} 18 U.S.C. §§ 1831–1839.
\textsuperscript{42} Id. § 1030.
\textsuperscript{43} “SLAPP” stands for Strategic Lawsuit Against Public Participation.
\textsuperscript{44} See, e.g., CAL. CIV. PROC. CODE § 425.16; Texas Citizens Participation Act, TEX. CIV. PRAC. & REM. CODE ANN. §§ 27.001–.011.
\textsuperscript{45} See, e.g., TEX. CIV. PRAC. & REM. CODE ANN. §§ 27.003(c), .005(b), .009(a).
The objective of anti-SLAPP statutes is to protect the free speech rights of individual citizens, but the broad “right of association” language in some of them has been used to argue that a former employer’s lawsuit for trade secret misappropriation impinges on a departed employee’s right to communicate with another departed employee or with a new employer. Anti-SLAPP statutes typically authorize the filing of a motion to dismiss before little or any discovery has been completed. To prevail with such a motion, a former employee must demonstrate the anti-SLAPP statute’s applicability to the former employer’s claim(s) by a preponderance of the evidence. If the former employee makes the required showing, the burden shifts to the former employer to establish that it will probably prevail on its claim(s), and in Texas at least, the former employer must do so by “clear and specific evidence.” If the former employer does not meet its burden, its claim(s) subject to the anti-SLAPP statute will be dismissed with prejudice, and the former employee will be awarded attorney’s fees and sanctions.

IV. Avoiding Liability to Third Parties

Although earlier sections of this chapter have focused on the problems faced by the employer in protecting its IP from loss, the employer must be aware that actions of its employees can subject it to liability to third parties. The employer should be aware of several risks and of several procedures and safeguards that it must take to reduce the risks of liability.

A. Counseling an Employer Hiring from a Competitor

Not infrequently, a business will decide to move into another area of business or product line. There are a number of ways to accomplish this,

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50. See supra note 43.
and the business’ first thought may be to hire someone knowledgeable in the area from another company. Why not? Are there any risks in such a procedure? Definitely!

Just as the employer wishes to protect its IP, the competitor will want to protect its IP as well. By hiring employees who are privy to the trade secrets and other IP of a competitor, an employer may be unknowingly (or knowingly) involved in misappropriating those trade secrets and other IP, and may find itself as a defendant in an injunction action brought by the prior employer. This does not mean that such hiring should not occur, particularly since the public policy of the United States favors employee mobility, but only that the hiring and employee “onboarding” process should be handled carefully.

Whenever an employer hires an employee from a competitor, it should check for the existence of any agreements between the employee and the competitor concerning IP, including noncompete agreements and confidentiality agreements, and should document that it does not condone misappropriation of the competitor’s trade secrets and other IP. This ordinarily occurs as part of an “entrance interview” and, ideally, should be conducted by representatives of the new employer who are not engaged in the competitor’s line of work. In addition, to the extent possible, the new employee should be assigned to areas of the business not in direct competition with the prior employer. Finally, the employer should be aware of the possibility of a lawsuit.51

B. Avoiding Infringement or Theft of IP

Employees should be educated to understand that their employer respects the IP of others and that employees may not use another’s IP without authority. To the extent an employee “borrows” ideas, inventions, or content from a third party and uses it in the course of his or her work, the employer may be liable to such third parties for infringement. This could arise from use of another’s patented or copyrighted material without a proper license, from copying commercial newsletters, or downloading music and software without authority.

Employees in marketing departments should be educated concerning the rights of competitors in their trademarks and service marks. Employees who design packaging, brochures, logos, or other designs should be cautioned to avoid any colors or designs that are

51. Epstein, supra note 9, at Ch. 3; Dorr & Munch, supra note 21, at § 2.10.
confusingly similar to those of competitors; otherwise the employer may find itself in a trademark infringement suit.

Employees should also be made aware of the employer’s policy not to use or allow employees to use the ideas, know-how, or trade secrets of others. Although trade secrets are not protected against independent development or reverse engineering, improperly obtaining copies of another’s internal documents and manuals to learn the details of trade secrets is considered misappropriation.

The protection afforded ideas is limited and inconsistent, but it is sometimes recognized and protected. To reduce the risk of any such claims, employers should ensure that their employees do not solicit ideas from third parties and then use them as their own. To reduce the risk of idea submission claims, companies should adopt procedures to refuse unsolicited ideas from outside sources.52

52. Epstein, supra note 9, at § 6.03.