Intellectual property is an incredibly valuable asset for any company. The question of who owns the intellectual property rights when an employee invents or creates something new on the job or in service of their employer is, therefore, a crucial question for employers to answer. There are multiple regimes for determining the answer to this question, including the common law and state and federal statutes. These legal regimes provide some protection to a company in some circumstances, but the protections are not comprehensive. Therefore, the best way for an employer to ensure a favorable answer is to address intellectual property rights in employment agreements signed by both parties prior to employment commencing and other corporate documents and policies. Such documents are crucial to ensure that a company is protected at every stage of an employee’s employment, from avoiding conflicts over a prior employer’s intellectual property rights retained by the employee, to maintenance of ownership over intellectual property rights created during the term of employment, to ensuring the company’s ability to retain and protect intellectual property rights after employment is terminated.

This paper will address the major categories of intellectual property (patents, copyrights, trademarks and trade secrets) as well as other types of confidential business information. In each section there will be a brief overview of the common law and statutory defaults for ownership of each type of intellectual property right, followed by advice for ensuring adequate protection beyond the common law and statutory protections through employment agreement provisions. This paper will also give an overview of restrictive covenants which can be included in
employment agreements, such as non-compete and confidentiality clauses, with advice on how to tailor such covenants to avoid running afoul of unconscionability doctrines. Finally the paper will address some “Best Practices,” laying out tips and guidance for companies seeking to ensure comprehensive protection of intellectual property rights.

1. **Ownership of Intellectual Property**

   (a) Patents

   “A patent is a property right granted by the Government of the United States of America to an inventor ‘to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States’ for a limited time in exchange for public disclosure of the invention when the patent is granted.” See http://www.uspto.gov/inventors/patents.jsp (answering the FAQ: What is a patent?); 35 U.S.C. §§ 101 (utility patents), 161 (plant patents) and 171 (design patents).

   Patents are protected only upon the issuance of the patent from the U.S. Patent and Trademark Office. Historically, the general rule for ownership is that the person who invented the invention claimed by the patent owns it and has the right to exclude others from making, using, offering for sale, or selling it. See *Beech Aircraft Corp. v. EDO Corp.*, 990 F.3d 1237, 1248 (Fed. Cir. 1993). This remains true for patent applications filed before *September 16, 2012*. See Manual of Patent Examining Procedure, § 306.01(1). There are a couple applicable exceptions to this general rule under the common law. The first exception is for “employer-specified inventions,” which are inventions made by employees at the employer’s request and expense, and which are considered the property of the employer. The second exception is the “shop right rule” under which an employer is not entitled to ownership of the invention but retains a nonexclusive right, akin to a license, to make use of the invention. The shop right
normally accrues when the employee made use of employer resources or property in making or perfecting the invention, and the scope of the shop right will be fact-dependent on the extent of the employer’s resource contribution. *See Wommack v. Durham Pecan Co.*, 715 F.2d 962, 965-66 (5th Cir. 1983). For patent applications *filed on or after September 16, 2012*, there is a presumption that the original applicant is the owner, not the inventors. 37 C.F.R. § 3.73(a).

Employers can avoid these defaults by requiring employees to sign preinvention assignment agreements as part of their employment agreements. Preinvention assignment agreements require the employee to assign their patent rights to the employer. Preinvention assignment agreements can be made broader than the common law default, covering more categories of invention than just employer-specified inventions and extending beyond the term of employment to for a reasonable period after employment has ended. As such these agreements have the potential to provide broad protection to employers.

But, there are limitations on preinvention assignment agreements that should be carefully considered when drafting a company’s employment agreement and when conducting due diligence on acquisition targets. The main limitations on preinvention assignment agreements arise from the fact that they are subject to state contract law, rather than federal patent law. *Abraxis Bioscience, Inc. v. Navinta LLC*, 672 F.3d 1239, 1243-1244 (Fed. Cir. 2011)(citing a string of cases for the proposition that the construction of patent assignment agreements is a matter of state contract law). This makes it important to be cognizant of how the state views such contracts. The first limitation on pre-invention assignment agreements relates to the timing of when they are signed. Pre-invention assignment agreements are generally upheld when they are signed prior to employment commencing. In some states a pre-invention assignment agreement signed after employment has commenced can be challenged for lack of consideration.
if no consideration beyond continued employment is given. See Evelyn D. Pisegna-Cook, *Ownership Rights of Employee Inventions: The Role of Preinvention Assignment Agreements and State Statutes*, 2 U. Balt. Intell. Prop. L.J. 163 (1994)(providing case citations and an overview of state law interpretation of pre-invention assignment clauses). The second limitation relates to the types of inventions that pre-invention assignment agreements can cover. Eight states (California, Delaware, Illinois, Kansas, Minnesota, North Carolina, Utah, and Washington) have passed statutes designed to keep employers from overreaching when writing preinvention assignment agreements into employment contracts. See Minn. Stat. § 181.78; Cal. Lab. Code § 287072; Del. Code tit. 19, § 805; Ill. Stat. Ch. 765, para. 1060/2; Kan. Stat. § 44-130; N.C. Gen. Stat. 66-57.1-.2; Utah Code §§ 43-39-1 to -3; and Wash. Rev. Code §§ 49.44.140-.150. In these states, pre-invention assignment agreements are not allowed to include inventions unrelated to the employer’s actual or anticipated business or research which were created on the employee’s own time and without using employer resources. In addition to the prohibition on overreaching, these statutes may also have additional language regarding written notification of such to the employee. See, e.g., Minn. Stat. § 181.78, subd. 3.

In addition to the assignment provision, it is important that employees have an ongoing obligation to cooperate with the organization on intellectual property matters, even after they leave the organization. This will allow the organization to collect signatures on intellectual property documents and even call upon the former employee to testify at trial.

(b) Copyrights

“Copyright is a form of protection provided by the laws of the United States (title 17, U.S. Code) to the authors of ‘original works of authorship,’ including literary, dramatic, musical, artistic, and certain other intellectual works.” See http://www.copyright.gov/circs/circ01.pdf
Copyright covers both published and unpublished works, so long as the work is fixed in a tangible medium. Copyright protection provides exclusive rights to distribution, reproduction, performance, display, and creation of derivative works. A work does not have to be registered to be protected by U.S. copyright law, but in order to file an infringement suit a registration must be made.

The author of a work owns the copyright unless 1) there is a written agreement assigning the copyright to someone else or 2) the work was “made for hire.” A “work made for hire” is defined by Section 101 of the Copyright Act as “a work prepared by an employee within the scope of his or her employment; or a work specially ordered or commissioned…if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.” Id. (answering the FAQ: Who can claim copyright?). The copyright to a work made for hire is owned by the employer or commissioner of the work.

While no separate agreement or assignment is necessary for a work created by an employee within the scope of employment, there are prudent precautions every employer can take to ensure adequate protection. The easiest precaution is to include a provision spelling out “work made for hire” ownership in employee handbooks and written employment agreements.

Further precaution must be taken when dealing with independent contractors. Work done by independent contractors does not automatically fall within the category of work made for hire. In order to protect its copyright interest, an employer contracting with an independent contractor must have a written agreement which specifies that the work being done is a “work made for hire.” Additionally, the work must be “specially ordered or commissioned for use as: a contribution to a collective work; a part of a motion picture or other audiovisual work; a
translation; a supplementary work; a compilation; an instructional text; a test; answer material for a test; or an atlas.” See http://www.copyright.gov/circs/circ01.pdf (answering FAQ: Who can claim copyright?); 17 U.S.C. § 101.

(c) Trademarks

Trademarks generally include words, symbols, logos, phrases, and other marks used to identify goods associated with a specific company. There are multiple classes of “marks” defined under trademark law, including trademarks, service marks, collective marks, and certification marks. Trademarks are used to identify and distinguish goods. Service marks are used to identify and distinguish services and may include titles, character names, and other distinctive features or radio or television programs. Certification marks are used to certify regional origin, materials used in or mode of manufacture, quality, accuracy, or other characteristics of goods or services, including labor performed by members of a union. Collective marks are used by members of a collective group, and may include marks indicating membership in a union or other organization. See 15 U.S.C. § 1127 (definitions). Trademarks must be 1) used in commerce and 2) distinctive to be eligible for protection, which is normally based on a first to use principle. Once registered trademarks are protected under the Lanham Act, but unregistered trademarks may be protected under federal law or state statutes. Like patents, the original trademark applicant is presumed to be the owner of the trademark application or registration, unless there is an assignment. 37 C.F.R. §3.73(a).

(d) Trade secrets

Trade secrets are normally protected under state law, although many states have adopted some variation of the Uniform Trade Secrets Act. The Uniform Trade Secrets Act defines a trade secret as “information, including a formula, pattern, compilation, program device, method,
technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” See Uniform Trade Secrets Act § 1 Definitions. Trade secret protections are generally going to depend on the specific facts and circumstances of each case, so it is important to know the applicable state laws in the states where the company is located.

An issue related to trade secret protection is the doctrine of inevitable disclosure. This doctrine protects of trade secret information from threatened or inevitable misappropriation where a former employee’s new employment will inevitably lead him or her to rely on the former employee’s trade secrets. An easy example is Ms. Executive at Company A is in charge of creating and executing business strategy for Company A. Ms. Executive leaves Company A for Competitor B, where she is also in charge of creating and executing business strategy for Competitor B in the same market as Company A. The doctrine of inevitable disclosure would prohibit Ms. Executive from making that job switch because Ms. Executive would necessarily have to use her knowledge of Company A’s business strategy in carrying out her responsibilities at Competitor B. This doctrine is rooted in the Uniform Trade Secrets Act but has not been adopted by certains states on the ground that it is tantamount to a judicially-created restrictive covenant.

Trade secrets are generally owned by the employer. However, in order to seek trade secret protection, an employer must employ reasonable means to keep trade secrets confidential. This makes employment agreements, corporate policies, employee handbooks and employee management practices, such as reminder letters regarding confidentiality and exit interviews at
the end of employment terms, important components of broader trade secret management plans. Employment agreements should include robust confidentiality agreement provisions, which will be discussed more below.

(e) Other confidential business information

An important category of intellectual property is general confidential information regarding a business’s day-to-day operation. This could include business and marketing plans, information on projects in the R&D pipeline, pricing, sales, customer or vendor information, financial details and the like. Trade secret protection may be available to protect some of this information, provided that the company takes efforts to protect the information as a trade secret. If trade secret protection is not available, then the contractual terms in the employment agreement are critical to keeping sensitive business information confidential while employees are employed and after employment.

2. **Restrictive covenants: beware of variation between state law**

   Employment agreements are governed by state law, so consideration must be given to how courts in the particular state view such agreements, and in particular, what a court in the state will do if it finds a clause contained within the agreement to be unconscionable. There are three approaches generally taken by courts in this situation: the strict approach, the “blue pencil” approach, and the reasonable alteration approach. Many state courts, but not all, have chosen one of these three approaches.

   Under the strict approach, followed in Arkansas, Georgia, Nebraska, and Arizona, when a covenant is found to be unconscionable for being overbroad the court will refuse to enforce it. This can be the case even where an agreement explicitly requests the court reform any clauses it
finds unconscionable. See e.g., CAE Vanguard, Inc. v. Newman, 246 Neb. 334 (1994). The “blue pencil” approach, followed by New Jersey, Indiana, Delaware, and Wisconsin, holds that if the covenant can be rendered enforceable by deleting words a court may choose to do so. Finally, the reasonable alteration approach, followed by Alaska, Ohio, Tennessee, Iowa, Pennsylvania, and Massachusetts, holds that if a covenant can be reasonably altered to render it enforceable a court will do so, so long as the court determines the covenant was drafted in good faith.

Court interpretation should also be taken into consideration when selecting the governing law and venue for dispute resolution in the employment agreement. Some states, but not all, honor choice of law and venue clauses in contracts. Generally, the state where the employer is located or where the job duties are performed will be a reasonable choice of law and likely honored. If the selected state appears to be unrelated to the facts, it may be disregarded, especially if it is contrary to the policy of that state. The choice of law provision should be carefully considered. As discussed, certain intellectual property ownership provisions and restrictive covenants are governed by state law and vary considerably state-to-state. Care should be taken to select the forum that will give the proper meaning and desired litigation outcome to those contractual terms.

(a) Confidentiality Clauses

“Confidentiality” or “non-disclosure” clauses are intended to protect confidential information in addition to intellectual property assets such as trade secrets. Properly drafted confidentiality agreements protect information from disclosure by employees both during and after employment. Information need not rise to the level of trade secret to be covered by a confidentiality agreement, it only needs to be not readily available to the public. Key considerations when drafting confidentiality agreements include:
• Defining what types of information are covered;

• Tailoring restrictions on use and disclosure to meet employer’s business needs without being overbroad;

• Addressing forum and choice-of-law selections; and

• Whether intellectual property assignment or “work for hire” provisions are necessary.

(b) Non-competition clauses: subject to most scrutiny

A non-competition clause is designed to restrict a former employee from engaging in employment activities for another employer which are in direct competition with the contracting employer. Non-competition agreements are, by definition, anti-competitive and, therefore, are generally subject to heightened scrutiny by courts. They will normally be enforced if the employer has a legitimate interest to protect, and only so far as is necessary to protect that interest. See e.g., *IDS Life Ins. V. SunAmerica, Inc.*, 958 F. Supp. 1258 (N.D. Ill. 1997). A non-competition clause is likely to be found unconscionable if the court finds it unreasonably broad in geographic limitation, scope of activities limited, or time (e.g., one or two years). Therefore, care needs to be taken in drafting non-competes to ensure that they are reasonably tailored to only restrict activities which an employer could reasonably request a former employee not engage in immediately after the end of the employment term.

Additionally, non-compete clauses must have consideration. Consideration exists if the non-compete clause is in an employment agreement that is signed at the beginning of the employment relationship. *Overholt Crop. Ins. Serv. v. Bredeson*, 437 N.W. 2d 698, 702 (Minn. App. 1989). If the non-compete clause is not part of the employment agreement, then there must be independent consideration. *Midwest Sports Mktg., Inc. v. Hillerich & Bradsby of Can., Ltd.*,
552 N.W. 2d 254, 265 (Minn. App. 1996). What constitutes adequate consideration for later non-compete agreements is highly fact intensive. Continued employment is generally insufficient but an “adequate” change in the terms or conditions of employment may be sufficient. Id. Substantial economic and professional benefits (e.g., new duties, additional compensation, better benefits) or real advantages in the employment relationship (e.g., a promotion) may also be sufficient. Davies v. Davies Agency, Inc., 298 N.W. 2d 127, 130-31 (Minn. 1980). A raise may also be sufficient if it is attributed to the signing of the non-compete agreement.

3. Conclusion

Well-crafted employment agreements provide employers with opportunities to ensure that corporate intellectual property is protected under terms that are generally more favorable than the default rules.

In addition to draft strong employment agreements, additional documents can be created to protect corporate intellectual property. For example, savvy companies have strong social media policies that discuss the ownership over social media accounts and email addresses to prevent those accounts (with valuable goodwill and trademarks) to leave when the employee controlling the email account (e.g., gmail or yahoo) leaves. Social media policies can also address the discussion of issues in chat rooms, boards or social media sites. For example, such policies can prevent employees from using the Internet to crowdsource solutions to problems and thus avoid the disclosure that the company is in fact working on a project to solve a particular problem. Such policies can articulate rules and prohibitions on storing information in the cloud in a way that could be accessed by non-employees or by former-employees with the correct user
name and password. In addition to social media policies, companies can draft employment
handbooks that provide additional detail on confidential information and how it should be treated
during and after employment. Such policies are powerful if organizations are diligent in getting
signed employee acknowledgments on a regular (ideally annual) basis.

In addition to the proper documentation, organizations can adopt strong procedures for
managing the cycle of an employee into the organization and out. As an example, employers
should practice strong interview and onboarding procedures to confirm that a prospective
employee does not have a non-compete agreement that they could be violating and that they
aren’t bringing any confidential information from their previous employer. Likewise, employers
should practice strong exit interviews that facilitate a graceful exit from the organization while
reminding the employees of their confidentiality and non-compete obligations. Projects with
intellectual property rights can have a long timeline and it is very likely that former-employees
may be called upon to sign documents concerning intellectual property rights and possibly testify
at trial.