

Don't Let a Vaguely Defined Employment Relationship or a Weak IP Assignment Clause Lead You Into Litigation

by Ryan J. Cudnik | Nov 15, 2021 | Intellectual Property Due Diligence, IP Enforcement



A fact pattern we see all too often is a former employee claiming an ownership interest in or over software or intellectual property (IP) developed by or for a former employer. Typically, this occurs with the former employee attempting to exploit a real or perceived ambiguity in his or her employment relationship with the employer—i.e., ambiguity regarding the former employee's status as either an employee or an independent contractor.

Alternatively, or in addition, the former employee attempts to exploit a lack of or a perceived weakness in an IP assignment clause in his or her employment contract. Fortunately, there are a couple of relatively easy, common sense "best practices" that can help employers reduce their risks in this area.

Employee vs. Independent Contractor Status

Whether an employee, as a legal matter, is an "employee" or an "independent contractor" turns on a number of factors:

- The level of skill required to do the work. (The more skill required, the more likely the worker is an independent contractor rather than an employee.)
- The source of the instrumentalities and tools used to do the work. (If the worker is the source, they are more likely an independent contractor than an employee.)
- The location of the work. (If the work is done on the hiring party's premises, the worker is more likely to be an employee.)
- The duration of the relationship between the parties. (The longer the duration, the more likely the worker is an employee.)
- Whether the hiring party has the right to assign additional projects to the worker. (If so, the

- worker is more likely an employee than an independent contractor.)
- The extent of the worker's discretion over when and how long to work. (The less discretion, the more likely the worker is an employee.)
 - The method of payment. (Is the worker paid in the same manner as employees usually are?)
 - The worker's role in hiring and paying assistants. (If the worker controls the hiring of assistants and pays them, the worker is more likely to be an independent contractor than an employee.)
 - Whether the work is part of the regular business of the hiring party. (If so, it is more likely that the worker is an employee rather than an independent contractor.)
 - Whether the hiring party is in business. (If so, it is more likely that the worker is an employee.)
 - The provision of employee benefits. (If employee benefits are provided, it is more likely that worker is an employee.)
 - The tax treatment of the worker. (Does the hiring party withhold Social Security taxes, income taxes, etc., as would normally be done for an employee?)

While none of these factors are determinative alone, they are meant to assess the employer's right to control the manner and means by which a work is accomplished. See, e.g., *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989); see also Restatement (Second) of Agency § 220.

Put another way, and especially in the absence of an employment contract clearly defining the employment relationship, they can determine whether the employer or employee "owns" software or IP created by the individual within the scope of their job.

Intellectual Property Assignment Clauses

The need for strong IP assignment clauses in employment contracts cannot be overstated. Early in the employment relationship, employers need to make clear that any software or IP developed by either an employee or an independent contractor, during and within the scope of employment, belongs to and is owned by the employer. Moreover, the employment contract should contain affirmative duties for an employee or independent contractor to document and disclose any and all software, inventions, creations, works, etc. that are developed as part of the employee's or independent contractor's job.

Further, for independent contractors, they should be required to list or otherwise disclose any of their own IP that they have or intend to incorporate into any software or IP created on the job. Finally, as companies grow, incentive programs can help the company capture (and, ideally, protect) important ideas, inventions, creations, know-how, etc.

Conclusions

When hiring someone as an employee or an independent contractor, having a written employment agreement in place, which covers and defines the employment relationship, is critical. Moreover, including a strong intellectual property assignment clause in the employment agreement should go a long way to ensuring that whatever software or IP an employee or independent contractor develops

within the scope of their employment remains with and the property of the employer.

Finally, upon separation from the employer, all employees or independent contractors should execute an IP assignment agreement, reinforcing that any software or IP the employee created within the scope of their employment and during the time of their employment remains with and is the property of the employer.



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