Managing Employee-Associated IP Risks

by Jack Stuart | Aug 9, 2022 | Intellectual Property Due Diligence

Everyone has a story about an experience with intellectual property (IP) in the workplace, because IP lies at or near the heart of a company's value - how could such stories not surface? Most of these tales encompass two maxims which are the focus of this article. Hopefully, recalling these maxims will help employers ensure IP created in the workplace remains there.

Spell Out IP Rights and Duties in Employment Agreements

A common misconception is that the company owns all IP generated by its employees. While this is the general rule, the rule is not absolute and its exceptions are not narrow. For example, employees who own pre-employment IP do not automatically relinquish that ownership when they are hired. Thus, companies must ensure distinctions between pre-employment and post-hiring IP are made to avoid ambiguity and uncertainty. This is especially true if the company hired the employee in anticipation of using the employee's pre-employment IP in company operations and/or dealings.

A more likely exception occurs when an employee creates IP - an invention or method, trade secret, copyright, or trademark - in a field beyond the employee's employment scope. In that case, most courts hold that it is the employee, not the company, who owns the innovation. At best, the company will be able to assert a so-called "shop right" - a nonexclusive license to use the innovation within the company - to that IP, without having to pay a royalty to the employee.

But even this limited right assumes the employee used company resources to produce the IP. If not, the company likely will have no claim even to a shop right. And regardless of the company's shop rights, the employee will be able to license their IP to anyone of their choosing, including the company's competitors. This is the case even if the employee used company resources to create that IP.

How does a company overcome these problems? By ensuring every employee signs an employment agreement and that the agreement contains provisions explicitly addressing IP ownership. This should include identification of the employee's pre-employment IP, if any, as well as the employee's IP rights assignment obligations. Agreements should also include work-for-hire and moral rights disclaimer provisions, for the case of copyrighted works.

Finally, note that if an employee is currently on the company's payroll and no such IP allocation provisions are in their employment agreement, depending upon the jurisdiction the company may need to provide additional consideration (i.e., incentive) to support the "new" requirement for the employee to agree to those amended provisions. Otherwise, the employee has no contractual obligation to do so. This additional consideration could be an increase in wages, a one-time incentive payment, equity in the company or other inducement. Be forewarned, however: the more trivial the additional consideration the more likely a court will not uphold the modified agreement as valid and enforceable.

The lesson here is that companies are well advised to clearly articulate the employee's obligations and the company's IP rights in an employment agreement (or amended agreement supported by additional consideration) instead of simply relying on general, common-law ownership assumptions.

Ensure Employees Know the IP Basics

Another closely related maxim is that what employees don't know about IP can hurt the company. While a full treatment of IP landmines related to employee conduct is beyond the depth of this article, a brief discussion of the most common pitfalls - those related to disclosures - should alert companies to the need to address these pitfalls both quickly and directly.

For instance, an employee's seemingly innocent and "newsworthy" disclosure of an invention to get "likes" on social media can be lethal to a company's potential patent rights in that invention. Likewise, public disclosures of company trade secrets can mean those secrets' status as legally protectable trade secrets will be lost forever.

As to disclosures related to patents, if an invention has been disclosed outside the company - and more particularly, to anyone not under an obligation of confidentiality to the company - for more than one year, it will not be possible to obtain a patent on that invention. Additionally, secret sales, or even offers for sale, start that same one-year "clock," the expiration of which is a statutory bar to patentability, and patent protection will be impossible to obtain for that invention. These facts mean the subject matter of inventions should be kept as closely guarded trade secrets until the patent application is filed, and employees should be made aware of this fact and periodically reminded of it in company communications and policy documents distributed to each employee.

Additionally, sales staff should understand that offers for sales - even under an NDA - to potential customers start a one-year statutory-bar clock, if the invention is "ready for patenting" (i.e., all the elements of the invention were present and a patent application could have been filed at the time the offer was made). Thus, sales personnel should be trained not to offer cutting-edge products for which patent protection has not yet been sought. Close coordination between sales leadership and the company's IP counsel is a best-practice measure to avoid such hazards.

To protect against disclosures involving trade secrets, companies should first understand that trade secrets must be identified, cataloged and protected as trade secrets, not simply treated as some indefinite form of "nonpublic information." That is, it is not enough simply to say, "Well, everyone in the company knows this is a secret!" and then to expect a court to back such a vague claim.

For a trade secret to gain trade secret status, it must be specifically identified and kept as a trade secret. This means limiting access to whom the trade secret is disclosed; providing adequate physical (locks) and electronic (passwords/user authorizations) safeguards to ensure trade-secret-related information is not disclosed; and keeping a ledger of company trade secrets and authorized users. It also means training employees to understand the basics of trade secrets and to know how to identify and safeguard trade secrets. Finally, employees must understand the procedures to follow if a trade secret has been (or is suspected of having been) disclosed.

While too many IP snares exist to address in a single article, those related to disclosures are the most common and usually the easiest to guard against. By training employees to know the IP fundamentals - especially those related to the dangers posed by disclosures - companies will have invested relatively very little time and resources to ward off potentially catastrophic threats.

Conclusion

Intellectual property is the lifeblood of most companies, but once IP rights are lost getting them back is usually an impossible task. By ensuring employment agreements are drafted to secure and protect company IP, and by ensuring employees understand IP fundamentals and how to treat sensitive information, companies can ensure that their innovations continue to propel them and their mission forward.

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