

CHAPTER **2**

Intellectual Property Issues in Employment Law

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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. While not all IP disputes can be avoided with advance planning, many can. 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

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1. Employers must plan in advance to obtain and protect ownership of IP; calling their lawyers only 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 very 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 they must be carefully drafted to ensure that they are “reasonable” (and therefore enforceable) under applicable law.
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.

any IP rights (IPR) created by its employees in the course and scope of employment belong to the business. Second, businesses must take care to ensure that employees do not misappropriate their IPR. Finally, businesses must educate employees about the IPR of others to ensure that such rights are not infringed. Each of these concerns is discussed in detail in the sections that follow.

1. See 17 U.S.C. § 101, definition of “work made for hire.” See also *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989).

II. Ensuring Ownership of IP Created by Employees

Much of the IP-related litigation that arises between employers and employees concerns the ownership of IPR 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 piece 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 thus, they are not the only companies that should worry about potential IP ownership claims by current and former employees. Manufacturing, service, oil field, food service, distribution, and many other types of businesses create and rely on IP. For a company to make sure that it is securing ownership of all IP created by its employees, it must first identify the IPR that it owns and is creating and, next, take whatever steps are necessary to secure ownership of such rights.

A. Identifying IPR

Chapters 1 and 10 of this book contain detailed descriptions of the various types of IPR along with detailed information about how to identify IP that may be lurking in a client’s business. The following is a brief discussion of those rights.

1. Copyrights

Copyright protection is granted by federal law to “original works of authorship fixed in tangible form.”² Because the requirement of “originality” means only a modicum of originality,³ and copyright protection automatically attaches to a work once it is “fixed,” every company

2. 17 U.S.C. § 101 *et seq.* (the Copyright Act).

3. *See Feist Publications v. Rural Telephone Service*, 499 U.S. 340 (1991).

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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.⁴

Looking at the foregoing list, one might be tempted to conclude that only companies that are engaged in the creative arts are likely to create copyrightable works, but do not be misled. 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, 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.

2. Patents

Patents are easy to identify because, unlike copyrights, they do not come into existence automatically but must be granted by the patent office of the United States 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 pending patent applications that may or may not be granted.

Obviously, companies that have gone to the time, trouble, and expense of obtaining patent rights know that such rights exist. There may, however, be companies that do not know that they are creating potentially patentable inventions. More importantly from an employment law perspective, some companies may not be fully cognizant of the activities being undertaken by their employees and may not real-

4. 17 U.S.C. § 102(a).

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ize that although an employee is not formally engaged in research and development activities, he has created a new invention.

To plan ahead, companies must understand that the scope of potentially patentable inventions is very broad. It includes not only physical items such as tools, machinery, and devices, but also processes, chemicals, software, and business methods.⁵

3. Trade Secrets

If a company has potentially patentable inventions, they are likely to be trade secrets until such time as 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, which are governed by common law⁶ or by state statute (usually based upon the Uniform Trade Secrets Act) rather than by federal law, 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.⁷

4. Trademarks and Service Marks

Like patents, trademarks and service marks are relatively easy to identify, but not necessarily because they are registered. Rather, trademarks and service marks are usually easy to identify because they are the name of a company's products and services. However, 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 even knowing it is doing so. Thus, it is important for a company to understand all of the things that may constitute trademark and service mark rights, as with copyrights, patents, and trade secrets, and to take the necessary steps to protect what it believes are the most important and valuable of such rights.

Trademarks and service marks are protected to some extent by both federal⁸ and state law (either common law or statutory filing schemes). Generally, trademark law protects any word, phrase, logo, or

5. 35 U.S.C. §§ 101, 161, and 171.

6. Restatement of Torts § 757; Restatement (Third) of Unfair Competition §§ 38–45.

7. Michael A. Epstein, *Epstein on Intellectual Property*, Ch. 1 (Aspen Publishers, 2006); Brian M. Malsberger, *Trade Secrets: A State-By-State Survey* (BNA Books, 3d ed. 2006).

8. 15 U.S.C. § 1051 *et seq.* (the Lanham Act).

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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.

5. Ideas

Not everything that is useful or valuable to an employer fits neatly into one of the listed categories. Plain old “ideas,” whether novel and therefore potentially patentable, reduced to a form that is entitled to copyright protection, or not generally known in the industry, are often critical to increase productivity, line up new markets, and otherwise distinguish a successful company. In limited circumstances, ideas that are not eligible for protection as one of the types of IP described above may be protectable based upon principles of contract law.⁹ Given their ill-defined nature, the biggest risk posed to employers from ideas 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. (See discussion of avoiding misappropriation and litigation claims later in this chapter.)

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, as discussed in the following, 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 presumptive rule is that the author (creator) of a work of authorship is the owner of the copyrights therein.¹⁰ However, U.S. copyright

9. Michael A. Epstein, *Epstein on Intellectual Property*, Ch. 6 (Aspen Publishers, 2006); Alces & See, *The Commercial Law of Intellectual Property* (Little, Brown & Company, 1994, 2007 Supp. Aspen Publishers), § 7.3.

10. 17 U.S.C. § 201.

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law recognizes a number of 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.¹¹ 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.¹² Third, and most importantly for employers, copyrights in a work of authorship will be deemed owned by the employer if an employee creates such work in the course and scope of his employment.¹³

The last rule is *not* the case when the work is developed by a consultant or third-party contractor rather than by 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: 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.

2. Patents

The presumptive rule in patent law is that the individual inventor(s), not his or her employer, owns the patent rights in the invention.¹⁴ This rule is reflected most clearly in Section 111 of the U.S. Patent Act, which states that all patent applications “shall be made, or authorized to be made, by the inventor.” Keep in mind, however, that because patent rights exist only once a patent is granted, state law 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.)

11. 17 U.S.C. § 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 being owned by whoever created such work. 17 U.S.C. § 201(c).

12. 17 U.S.C. § 201(d).

13. 17 U.S.C. § 101, definition of “work made for hire.”

14. 35 U.S.C. §§ 111, 115–118.

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Because all patent applications must be filed in the name of the inventor and the inventor's cooperation is likely to be needed to successfully prosecute a patent application,¹⁵ the best practice is for employers to secure ownership of potential patent rights through what is known as an "invention assignment agreement." In the event that such an agreement is not secured, however, some judicially created doctrines may allow an employer to claim, if not the patent rights, at least the right to use the patented 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 "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.¹⁶

3. Trade Secrets and Ideas

Unlike patent and copyright law, no federal law specifies the presumptive ownership rights of trade secrets or other "good ideas" developed on the job. Because such rights are a creature of state law, the laws of each state where 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, they may be spelled out in detail in statutes.¹⁷ Generally, however, the applicable rules of ownership can be modified by contract. 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

15. Robert C. Dorr & Christopher H. Munch, *Protecting Trade Secrets, Patents, Copyrights, and Trademarks* (Aspen Law & Business, Supp. 2003), §§ 4.14 and 5.15.

16. Robert C. Dorr & Christopher H. Munch, *Protecting Trade Secrets, Patents, Copyrights, and Trademarks*, Ch. 4 (Aspen Law & Business, Supp. 2003).

17. See California Civil Code §§ 980–989.

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rule are when marks are used pursuant to a license or by related companies. Thus, unless an employee might claim that a particular trademark or service mark was his “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 usually not enough. 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 concerning 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,” or some combination of all four.

For a number of reasons, if an employer has a choice between obtaining a copyright assignment agreement 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 U.S. 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 thirty-five years from the date of execution of the grant. 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.¹⁸

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

18. 17 U.S.C. § 101, definition of “work of visual art.”

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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, therefore, are 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, for example, states 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.¹⁹

Without such a statutory restriction, employers might be tempted to claim ownership of all inventions or ideas that an employee conceives of during his or her employment whether it is related to his or her work for the employer. 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, 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 if any special rules exist.

D. Protecting IPR Once They Are Secured

Once an employer is certain it has identified existing IPR and secured the ownership therein, 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

19. California Labor Code § 2870.

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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.

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

Once an employer has obtained ownership of IPR, it must take steps to protect it. 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 IPR. 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 IPR being misappropriated or infringed is to educate its employees. At a minimum, employees should be informed of the nature and identity of the IPR 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 hold IPR, for example, 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. Such efforts are 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.

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2. The Employment Manual and Policies

One way to educate employees about their duties concerning an employer's IPR is to include a discussion of those rights and duties in the employer's employment policies and manuals. This is not a substitute, however, for specific written agreements with all employees who are directly engaged in inventive or creative activities as noted in the following.

3. Written Agreements

Another way to educate employees about their duties concerning an employer's IPR is to obtain a written agreement in which each employee: (1) acknowledges the existence of the employer's IPR; (2) agrees that the employer owns any IPR created during the course and scope of employment; and (3) promises not to infringe or misappropriate the IPR of the employer. 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).

Two other forms of agreements employers often use to educate employees and protect IP (particularly trade secrets) are the "non-compete agreement" and the "confidentiality agreement." State laws vary regarding limitations on the scope and enforceability of non-compete agreements.²⁰ But even when a noncompete agreement with an employee is held unenforceable, a confidentiality agreement may be upheld.

4. The Exit Interview

The use of exit interviews with employees can be helpful in ensuring that an employer's IPR are not infringed or misappropriated. These interviews afford the employer an opportunity to obtain copies of any confidential information in the employee's possession and 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

20. Brian M. Malsberger, *Covenants Not to Compete: A State-by-State Survey* (BNA Books, 5th ed. 2006); Mark A. Rothstein, Charles B. Craver, Elinor P. Schroeder, & Elaine W. Shoben, *Employment Law*, Ch. 8 (Thomson West, 3d ed. 1999).

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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 obligation of confidentiality, the employer's burden of proof in litigation may be met more easily.

B. Strategies that Are IP-Specific

1. Copyrights

A copyright gives the owner 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; to perform the work; and to display the work.²¹ In addition, the owner of the copyright may license others to utilize these rights.²²

As noted in Chapter 1, it is generally recommended that copyright owners register their copyrights with the U.S. Copyright Office. Although this is not necessary to secure copyright protection, it is needed to preserve certain remedies for infringement and in the United States is a prerequisite to bringing a copyright infringement claim.

Employees who create works of authorship may not be aware that because the copyrights in those works are automatically owned by their employer pursuant to the work-for-hire doctrine, they 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 those works that are off limits for the employee's future use.

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 U.S. Patent Office or a foreign patent office. Utility and plant patents are generally valid for twenty years

21. 17 U.S.C. § 106.

22. See generally, Michael A. Epstein, Epstein on Intellectual Property, Ch. 4 (Aspen Publishers, 2006).

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from the date the patent application was filed.²³ A design patent is valid for fourteen years from the date the patent is issued.

The effect of the grant of a 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.²⁴ 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 that receive greater protection by federal registration), or patents that are protected upon the issuance of a patent by the U.S. Patent and Trademark Office, trade secrets are creatures of state law and are not protected by any federal filing or registration procedure. They are protected only if they are in fact secret and their secrecy is maintained.²⁵

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, it is only when a lawsuit for trade secret misappropriation is filed that 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 is tested. If the employer has not taken the necessary protective 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 require those employees allowed access to

23. 35 U.S.C. § 154.

24. 35 U.S.C. § 154; *See generally*, Michael A. Epstein, Epstein on Intellectual Property, Ch. 5 (Aspen Publishers, 2006).

25. Michael A. Epstein, Epstein on Intellectual Property, Ch. 2 (Aspen Publishers, 2006); Robert C. Dorr & Christopher H. Munch, Protecting Trade Secrets, Patents, Copyrights, and Trademarks, Ch. 2 (Aspen Law & Business, Supp. 2003); Alces & See, The Commercial Law of Intellectual Property, Ch. 3 (Little, Brown & Company, 1994, 2007 Supp. Aspen Publishers).

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expressly agree that they have a duty to preserve the confidentiality of the trade secrets. The employer should utilize good security procedures, including such simple measures as locking up 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, and other communication systems are used within their businesses and how access to the information stored on or available through their computers 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 secrets 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 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 other third party that the information was considered confidential and 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 having access to trade secrets.²⁶ (See preceding

26. Brian M. Malsberger, *Employee Duty of Loyalty: A State-by-State Survey* (BNA Books, 3d ed. 2005).

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discussion of these agreements.) The necessary contents of a confidentiality agreement 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 obligation to maintain secrecy; (2) identify the existence of trade secrets; (3) restrict the employee's right to further use, disclose, or communicate the trade secret information or material; (4) require the employee to return all evidence of the trade secret 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 knowledge and understanding gained in the course of employment, but it can prevent use of actual trade secrets. The critical issue in such cases is 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, however, a noncompete 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, however, and tends to vary not only between jurisdictions but even within the same jurisdiction.

If an exit interview indicates an employee is leaving to begin work with a competitor, or the employer has other reason to believe that its trade secrets 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 state laws governing trade secrets, 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

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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.

C. Litigation

Litigation against employees or competitors for misappropriating trade secrets or infringing other IPR may be necessary. Often, the first step in the litigation process will 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 applicable 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.²⁷

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 IPR. Depending upon the jurisdiction and the facts, the injunction may last indefinitely or for a limited time. For instance, the 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.

IV. Avoiding Liability to Third Parties

While 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

²⁷. See generally, Brian M. Malsberger, *Trade Secrets: A State-by-State Survey* (BNA Books, 3d ed. 2006).

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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

An employer may wish to move into another area or product line. There are a number of ways to accomplish this, and the employer's 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 IPR, the competitor will want to protect its IPR as well. By hiring employees who are privy to the trade secrets and other IPR of a competitor, an employer may be unknowingly (or knowingly) involved in misappropriating those trade secrets and other IPR and may find itself as a defendant in an injunction action brought by the prior employer.

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 IPR, including noncompete agreements and confidentiality agreements, and should document that it does not condone misappropriation of the competitor's trade secrets and other IPR. 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.²⁸

B. Avoiding Infringement or Theft of IPR

Employees should be educated to understand that their employer respects the IPR of others, and that employees may not use another's IPR without authority. To the extent an employee "borrows" ideas, inventions, or content from a third party and uses it in the course of her work, her employer may be liable to such third parties for infringe-

28. Michael A. Epstein, *Epstein on Intellectual Property*, Ch. 3 (Aspen Publishers, 2006); Robert C. Dorr & Christopher H. Munch, *Protecting Trade Secrets, Patents, Copyrights, and Trademarks* (Aspen Law & Business, Supp. 2003), § 2.10.

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ment of their IPR. This could arise from use of another's patented or copyrighted material without a proper license or 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 designs that are 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 or trade secrets of others. While trade secrets are not protected against independent development or reverse engineering, 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 they are sometimes recognized to be 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.²⁹

29. Michael A. Epstein, *Epstein on Intellectual Property* (Aspen Publishers, 2006), § 6.03.

