

INTELLECTUAL PROPERTY AND PRIVACY IN THE WORKPLACE

Intellectual Property Protection in Contracts with Employees and Independent Contractors

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The basic document that protects an employer's intellectual property from claims by the employees and independent contractors who helped develop that intellectual property is the Proprietary Information and Invention Assignment Agreement ("PIIAA"). The PIIAA protects the employer's rights in the major categories of intellectual property, namely works of authorship, trade secrets and inventions. US law, and the laws of most other countries, protect those categories of intellectual property through copyright, the laws of trade secrecy and patent law respectively. In the United States, copyright and patent laws are federal laws, and the laws protecting trade secrets and confidential information are generally state laws.

The PIIAA accomplishes two main things: (i) it gets the employee or contractor to acknowledge his or her obligation to protect the employer's trade secrets and (ii) it confirms that the employer, and not the employee or contractor, owns all the intellectual property that the employee or contractor develops.

The status of some forms of intellectual property created in the workplace is different depending on who developed it. Therefore, the forms of PIIAA for employees and contractors

must be somewhat different in significant respects. This paper addresses the employer and contractor forms of PIIAA, identifies the ways in which the two forms are different and similar, and gives practice tips about drafting the two forms of PIIAA.

I. DIFFERENCES AND SIMILARITIES IN EMPLOYEE AND CONTRACTOR FORMS OF PIIAA.

The PIIAA forms for employees and contractors are much the same with regard to acknowledging the employer's confidentiality obligations. Where they differ is how they confirm that the employer owns the intellectual property that is developed at the workplace.

Protecting Works of Authorship. The Copyright Act provides that works protected by copyright (i.e., "works of authorship") are owned by their authors.¹ However, works developed by employees within the scope of their employment are "works made for hire";² and employers, not their employees, are deemed to be the authors of such works for purposes of copyright ownership.³ The PIIAA form for employees gets the employee to acknowledge that works of authorship developed by the employee are "works made for hire" and are thus owned by the employer. Even if the PIIAA didn't do that, the result would be the same, because the right of an employer in works of authorship made by his or her employees for hire is statutory and not contractual. However, obtaining the employee's acknowledgment that his or her work product is a "work made for hire" will minimize the possibility that the employee will later claim rights to that work. Practice Tip: Make sure that the employee form of PIIAA includes an employee acknowledgement that the works of authorship produced are "works made for hire".

The “work made for hire” doctrine doesn’t generally apply to contractors.⁴ Consequently, works of authorship created by contractors within the scope of their employment engagements are owned by the contractors themselves \and not by their employers. Ownership of such works must pass to the employer through an assignment, and the assignment must generally be in writing and signed by the contractor.⁵ Thus, the PIIAA form for contractors should provide for an assignment of the works of authorship by the contractor in favor of the employer. Without this explicit written assignment in the contractor form of PIIAA, the work of authorship created by the contractor would be owned by the contractor.⁶ Practice Tip: Always get contractors to give you a written assignment of all work they produce before engaging them. The assignment should be part of the PIIAA, but in some cases an additional “stand-alone” written assignment is warranted.

Sometimes, an employee will argue that certain works were not developed within the scope of the employment relationship. Whether a work was or was not developed within the scope of the employment relationship is a matter of fact. But the PIIAA for employees can help make that determination if it recites the duties of the employee, at least as both employer and employee have agreed as of the beginning of the relationship. PIIAAs for employees that fail to generally describe the duties of the employee provide an opening for an employee to challenge that a particular work is a “work made for hire.” Practice Tip: Describe the general duties and responsibilities of each employee in their PIIAAs. If those duties change substantially during the course of the employee relationship, have the employee sign a revised PIIAA containing an updated description of duties.

Protecting Inventions. Inventions are protected by patent law and by the laws of trade secrecy. Inventions protected by patents are almost always owned by their inventor, whether the inventor is a contractor or an employee.⁷ Unlike works of authorship protected by copyright, there is no “work made for hire” doctrine for inventions. Thus patent ownership must be addressed the same way in PIIAAs regardless of whether the one who develops the invention is a contractor or an employee.

The only way an employer generally gets to own an invention made by his or her employee or contractor is by a written assignment.⁸ In the first instance, that assignment is made explicit in the PIIAA as a statement of present assignment of inventions the employee or contractor may develop in the future. Ultimately, the employer must also get the employee or contractor to enter into separate assignments of each invention that will be described in a patent application. Practice Tip: It is absolutely essential that the PIIAA forms for both employees and contractors include a present assignment of future inventions.

The recent United States Supreme Court case, *Stanford v. Roche*,⁹ provides important guidance on how explicit the assignment of patent rights in the PIIAA has to be in order to accomplish its purpose. In that case, a researcher was hired by Stanford University and signed an agreement stating that he “agreed to assign” to Stanford his rights resulting from his work there. Stanford subsequently arranged for him to conduct some of his research at Cetus, a small research company. Cetus’ PIIAA provided that he “will assign and hereby does assign” his rights to the research made as a consequence of working there, which was the same research he was doing at Stanford.

Stanford claimed that it exclusively owned the researcher's inventions. The United States Patent and Trademark Office subsequently granted Stanford patent rights in the researcher's inventions. However, the Supreme Court affirmed that the researcher had validly assigned rights in the invention to Cetus, notwithstanding his prior assignment to Stanford. Although the Supreme Court didn't rule on the relative status of the two assignments,¹⁰ the Court of Appeals for the Federal Circuit held that the assignment to Cetus took precedence because it was a "present assignment" and Stanford's was a promise to assign in the future.¹¹ Practice Tip: Make sure that both employee and contractor forms of PIIAA provide that the employee or contractor is making a current assignment of any future inventions.

Another difference between employee and contractor forms of PIIAA is the reference in the former to Section 2870 of the California Labor Code. That section provides that inventions that are made entirely on an employee's own time and without use of his or her employer's facilities or trade secrets are owned by the employee unless the invention relates to the employer's business, or research or development or results from any work performed by the employee for the employer.¹² Generally, courts have interpreted the term, "inventions", much more broadly for purposes of the Labor Code than inventions that are subject to patent protection. "Inventions" for purposes of the Labor Code may include works of authorship protected by copyright under the Copyright Act, trade secrets and confidential information protected by state trade secrecy laws and other forms of intellectual property.

The California Labor Code does not apply to contractors. Therefore, the contractor form of the PIIAA does not include any reference to Section 2870. Practice Tip: It is good practice to acknowledge the applicability of Section 2870 of the Labor Code in the form of PIIAA for employees. The reference should be omitted in the form of PIIAA for contractors.

Protecting Trade Secrets and Other Confidential Information. Trade secrets and other confidential information of employers are generally protected by state laws. Inventions are generally protected as trade secrets under those state laws until the United States Patent and Trademark Office grants patent claims on those inventions or at least until the patent applications are published.

California's law of trade secrecy is codified in the Uniform Trade Secrets Act.¹³ That law provides for civil penalties for those who acquire, use or disclose to others trade secrets without authorization. Both forms of PIIAA generally have lengthy provisions that define proprietary or confidential information, get the employee or contractor to acknowledge that the employer owns that information, and impose obligations on the employer or employee to keep that information confidential from third parties.

The Uniform Trade Secrets Act does not distinguish between employees and contractors in imposing damages and giving the employer the right to enjoin continuing unauthorized disclosures. Therefore, the confidentiality provisions of both forms of PIIAA are generally much the same. Courts have held that both employees and contractors owe a duty to their employers not to use or disclose confidential information to others.

Other Differences Between Employee and Employer Forms of PIIAA. Other differences

between Employer and Employee forms of PIIAA include the following:

- (i) Employee forms of PIIAA often invoke “at will” employment status whereas contractor forms of PIIAA don’t.
- (ii) Contractor forms of PIIAA may contain non-competition provisions of broader scope than the employee forms. Restrictions on an employee’s right to simultaneous or subsequent employment may be void in California.
- (iii) Contractor forms of PIIAA may provide that in the event that a court or government agency characterizes the relationship with the employer as that of an employee rather than an independent contractor, the provisions relating to intellectual property and confidentiality should continue to be enforced.

II. CAN EMPLOYEES ASSIGN THEIR INTELLECTUAL PROPERTY RIGHTS IF THEY SIGN AN INDEPENDENT CONTRACTOR AGREEMENT? WHAT ARE THE CONSEQUENCES?

Employees can assign their intellectual property rights to someone other than their employer as an independent contractor. If the same intellectual property is being assigned, then there is obviously a conflict. The two agreements at issue in the Stanford v. Roche case is an example of how this can happen.

If an employee assigns the same intellectual property rights to his or her employer as an employee and to a different employer as an independent contractor, the results will vary depending on the forms of intellectual property involved. They will also vary depending on the enforceability of the PIIAA that the employee signed with his or her employer. Defective PIIAAs may result in the employer's rights being unenforceable. But assuming the relevant PIIAA ownership and assignment provisions are well drafted, the following consequences may ensue:

If an employee tries to assign a work made for hire to a third party, the assignment may be void and unenforceable, because ownership was with the first employer as a matter of law.

If an employee tries to assign patent rights to a third party after assigning them to his or her employer, that assignment may be void unless the assignment to the employer was only a promise to assign (as in the *Stanford v. Roche* case).

If an employee tries to assign rights in trade secrets or confidential information belonging to an employer, the employee will have violated the California Uniform Trade Secrets Act as well as breaching the PIIAA, and may be subject to both contractual and statutory damages.

III. CONCLUSION

Although the forms of PIIAA for employees and contractors are similar, and even identical in many respects, there are important differences. Those differences are based on the ways that state and federal laws confer initial ownership of different forms of intellectual

property. Effective, well-drafted PIIAAs that address those differences are essential in protecting an employer's rights in intellectual property developed by his or her employees and independent contractors.

¹ 17 U.S.C. §201(a).

² 17 U.S.C. §101.

³ 17 U.S.C. § 201(b).

⁴ The Copyright Act does provide that certain kinds of works of authorship (including those specially ordered or commissioned for use as a contribution to a collective work) can be considered "works made for hire" (and thus owned by the employer as a matter of law) even if not made by employees within the scope of their employment if the parties so agree in writing. But the utility of this provision is very limited, and it is usually better for the employer to obtain a written assignment rather than rely on it.

⁵ 17 U.S.C. § 204(a).

⁶ Without an express, written assignment signed by the contractor, the employer might be able to sue the contractor for damages or to rescind the contract if the employer paid the contractor for the work but didn't get ownership of the work created, but the contractor would still own the work.

⁷ "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter . . . may obtain a patent therefor." 35 U.S.C. §101.

⁸ 35 U.S.C. §§151, 152, 261.

⁹ Board Of Trustees Of The Leland Stanford Junior University V. Roche Molecular Systems, Inc., et al., 563 U.S. ___, 131 S.Ct. 2188, 180 L.Ed.2d 1 (2011)

¹⁰ "Because the Federal Circuit's interpretation of the relevant assignment agreements is not an issue on which we granted certiorari, we have no occasion to pass on the validity of the lower court's construction of those agreements." 131 S.Ct. 2194, footnote 2.

¹¹ 583 F.3d 832, 841-842 (2009)

¹² Cal. Lab. Code § 2870. (a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an 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.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

¹³ Cal Civ. Code §§ 3426-3426.11.