



Section-by-Section Analysis of the proposed Inventor's Rights Act

Subsection (a), limits on employment agreements:

Any provision in an employment agreement which provides that the employee shall assign or offer to assign any of the employee's rights in intellectual property to the employee's employer shall not apply to intellectual property that the employee developed entirely on the employee's own time without using the employer's equipment, supplies, facility or trade secret information, except for intellectual property that:

- (i) relates to the employer's business or actual or demonstrably anticipated research or development, or
- (ii) result from any work performed by the employee for the employer.

Commentary: This subsection limits the scope of employment agreements by stating that employers cannot claim ownership of intellectual property developed entirely on their employee's own time, with the employee's resources and that is unrelated to the company's business. It is aimed at employment agreements that attempt to claim intellectual property unrelated to an employer's activities, such as a fishing lure developed by a computer programmer.

Importantly, this subsection does not say what terms must be in employment agreements, but rather draws an absolute line beyond which employment agreements cannot go.

Under patent law, an employee initially owns any patents where he or she is an inventor. Commonly, ownership is assigned to the employer when the patented invention is the result of a job assignment. When the invention is not the result of a job assignment, but is made on the employer's time or using the employer's resources, the employer has a "shop right" to the patented invention – a royalty-free, nonexclusive, implied license to the patented invention.

This subsection is in full accord with the federal statute regarding invention ownership and the Bayh-Dole Act, which is outside of the scope of this legislation. See 35 U.S.C. §200 *et seq.* This language is taken from the existing Delaware statute, with "intellectual property" substituted for "invention." The language in the other seven states' statutes is similar.

Subsection (b), post-employment compensation:

Any provision in an employment agreement which requires that the employee assist the employer in securing intellectual property rights following the end of his or her employment, beyond nominal assistance, must provide for fair compensation to the employee for his or her time and expenses.

Commentary: This subsection restates the obvious – that companies cannot require a former employee to work it without fair compensation.

This subsection does permit employment agreements that require former employees to provide nominal assistance to a past employer without compensation. This could include reviewing and signing forms that are necessary for the former employer to perfect its intellectual property rights, such as patent applications and assignments, but only when those forms are standard and would not require the employee to seek the advice of counsel. Assistance in preparing a patent application likely goes beyond such nominal assistance and must be fairly compensated.

Subsection (c), definition of intellectual property:

As used in this Section, “intellectual property” includes inventions, patents, copyrights, trademarks and service marks, domain names, trade secrets, confidential information, technology, and ideas, and any and all rights, applications, and registrations relating to them.

Commentary: It is intended that this law take a broader view of intellectual property than the existing eight state statutes. Those laws were concerned with “inventions,” which were commonly protected by either patents or trade secrets.

Since those laws were passed, software, which is most commonly protected by copyright, has become a key component of many inventions. It is not clear under existing state laws whether software constitutes an “invention.” The broader term used in this legislation makes it clear that software is included within its scope.

As technology evolves, new forms of intellectual property are likely to come into being. While this subsection lists a number of current forms of intellectual property, the use of the word “includes” indicates that they are only examples rather than an exhaustive list. The protections offered under this legislation apply to any intellectual property that may, in the future, be developed.

Subsection (d), effect of over-reaching:

To the extent a provision in an employment agreement is contrary to this Section, it is against the public policy of this State and is unenforceable. An employer may not require a provision of an employment agreement made unenforceable under this Section as a condition of employment or continued employment.

Commentary: This subsection establishes the consequences of companies violating the above provisions. Agreements that do so are simply unenforceable. It also makes it clear that agreeing to such provisions cannot be a requirement for employment.

This language is taken from the Delaware statute. The language in the other seven states' statutes is similar.

Subsection (e), burden of proof:

The employee shall bear the burden of proof in establishing that his or her intellectual property qualifies under this Section, except that an employer shall bear the burden of proof in establishing that any intellectual property relates to the employer's business or actual or demonstrably anticipated research or development.

Commentary: This subsection establishes who has the initial burden in providing facts to support their claims under this legislation. It follows the principle that the one in the best position to know the facts should have the initial burden.

The employee, as the creator of the intellectual property, is in the best position to know how the intellectual property came into being. In particular, the employee may be the only one who knows whether the intellectual property was created on the employee's own time and without the use of any of the employer's resources.

The exception to this rule involves claims that intellectual property relates to the employer's current business or anticipated future business. In these cases, the burden of proof is placed on the employer.

This language comes from the North Carolina statute. California and Illinois have similar language.

Subsection (f), effect on disclosure requirements:

Nothing in this article shall be construed to permit, forbid, expand, or restrict the right of an employer to provide in employment agreements for disclosure of all of the employee's intellectual property made solely or jointly with others before or during the term of his or her employment, provided that any such disclosures be received in confidence.

Commentary: This subsection makes it clear that an employer can require an employee to disclose any and all intellectual property created by the employee before or during his or her employment.

Disclosure of intellectual property created before the start of employment may help establish that the intellectual property is outside the reach of an employment agreement. Any transfer of ownership for such intellectual property created before employment began would have to be in the form of a specific license or assignment agreement.

To protect the intellectual property rights of the employee and past employers, any disclosure must be received in confidence by the employer and must not be used in any improper way. Employers need to be particularly careful when the disclosure involves information coming from an employee's past employment by a competitor.

Subsection (g), consideration for employment agreements:

Employment of the employee or the continuation of his or her employment is sufficient consideration to support the enforceability of an employment agreement provision under Subsection (a) whether or not the agreement recites such consideration.

Commentary: Classic contract law requires that sufficient "consideration," or compensation, be provided by the parties to a contract for that contract to be valid and enforceable. Sometimes employers still provide a "patent dollar" to show consideration going to an employee signing a patent application or assignment.

This subsection makes it clear that there is no need for additional or special payments to an employee to support an employment agreement's intellectual property assignment provisions. The agreed-to salary and the continued employment of the employee are sufficient. Of course, the employment agreement is still subject to the other limitations found in this legislation.

This language comes from the Utah statute, and was one of the reasons that employers proposed and supported that legislation.

Subsection (h), notification requirement:

If an employment agreement entered into after XXX contains a provision requiring the employee to assign any of the employee's rights in any intellectual property to the employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to intellectual property as indicated in Subsection (a).

Commentary: This subsection provides that an employer must inform new hires and current employees being covered by new agreements of their rights under this legislation. This can be done by providing the employee with a copy of the legislation, a summary of the legislation, or by including a provision in the employment agreement that specifically says that it does not apply to the intellectual property indicated in subsection (a).

This subsection does not require that an employer provide an employee already covered by an employment agreement any notification of his or her rights under this legislation. Coverage of the passage of this legislation in the press, and information provided by professional societies such as IEEE, should be sufficient without having to impose a new burden on employers. But just because an employer does not have to notify an employee regarding his or her rights to intellectual property does not mean the employee does not enjoy the protections offered in this legislation.

The actual date substituted for “XXX” will be sufficiently after the enactment of this legislation to allow time for employers to revise their employment agreements and procedures to be in compliance with this subsection. It will vary from state to state.

This language is based on the California statute. Illinois, Kansas, Minnesota, and Washington statutes contain similar language.

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For more information, see:
<http://www.ieeeusa.org/policy/issues/inventorrights/>