NON-COMPETITION AGREEMENTS, NON-SOLICITATION AGREEMENTS, AND INTELLECTUAL PROPERTY RIGHTS

In a world of global trade and instantaneous communication, the best investment a business can make may be in intellectual capital, and its greatest source of wealth may be knowledge. Intellectual capital is likely to be developed by employees paid to think and to apply their ingenuity and talents for the benefit of employers. To protect its intellectual capital, a business must secure its copyrights, patents, trade secrets, trademarks, service marks, and trade names. The first step in that process is for the employer to enter into a formal agreement with each employee that clearly establishes that the employer owns and retains control of the intellectual capital, even after the employee has moved on to a new job at a different company, or even when the employee has become a competitor.

Employment contracts and independent contractor agreements are critical to securing a business's intellectual property. Appropriate contract language is essential for an employer who seeks to limit the damage caused when its intellectual property rights have been misappropriated by former employees or independent contractors. Employers also may rely on statutory and common law protection, but well-crafted agreements are the best protection.

NON-COMPETITION AND NON-SOLICITATION AGREEMENTS

As a condition of employment, an employer may require that an applicant or employee sign an agreement not to work for a competitor and not to form a competing business during the term of his or her employment or after he or she departs. The agreement also may provide that the individual may not solicit the employer's customers or employees when he or she starts a competing business or works for another employer. Confidentiality obligations are almost always included in non-compete agreements; agreements to assign inventions may also be included. Such agreements are enforceable against former employees and independent contractors if they protect a legitimate interest of the employer, are supported by adequate consideration, and are reasonably limited in scope and in time.[63] Non-competition and non-solicitation agreements should be separate documents, distinct from other employment paperwork. If the employee is employed "at will," the non-compete agreement should state specifically that it is a separate agreement to protect intellectual property rights, not an

employment contract, and that it does not modify what otherwise may be an "at will" employment relationship.

Adequate consideration for a covenant not to compete varies from case to case. Courts generally agree that consideration is adequate when, for example, the agreement was executed as a condition of, and in consideration of, hiring, or in exchange for payment. If an employer is going to require a new employee to sign a non-competition or non-solicitation agreement, the employer should provide notice to the prospective employee at the time the offer of employment is made, so that the new employee knows that he or she will be expected to sign the agreement as a condition of hire. Ideally, the prospective employee will receive notice before he or she has quit another job, moved to a new location, or otherwise made changes in his or her life in reliance on his or her expectation of new employment. Because there is no such thing as a "standard" non-competition agreement, an employer should provide a prospective employee with an opportunity to review and respond to the proposed agreement before he or she accepts the new job. If an employee has verbally accepted an offer of employment without being advised that such an agreement will be required, or without an opportunity to review the terms, the agreement may have to be supported by separate consideration, such as a cash payment, in addition to the initial offer of employment.

Employers should review non-competition/non-solicitation/confidentiality agreements with existing employees to determine if each agreement was adequately supported by consideration at the time it was signed. If there is a question about the fact of or adequacy of consideration, the agreement may not be enforceable unless the employee signs a new agreement promising not to compete and receives new consideration.

Because the law generally disfavors non-compete agreements, it is important that the language in each contract be appropriately drafted to protect the specific interest of the employer in each circumstance. Courts determine if restrictions are reasonable in scope and time based on their evaluations of individual contracts. Under Minnesota law, a non-compete agreement executed by the seller as part of the sale of a business is likely to be enforceable for a decade or longer.[64] In the employment context, by contrast, restrictive covenants may endure for two or at most three years. Because courts view covenants not to compete with skepticism, the contract may be interpreted against the employer.[65] For example, a non-compete covenant in an employment contract may not be enforceable after an employee has been fired unless it is absolutely clear that the parties intended the non-compete clause to survive even involuntary termination of employment.[66]

Where restrictions are determined to be overly broad, a court may modify or "blue pencil" the agreement by substituting reasonable geographical scope and time limitations.[67] In egregious cases of employer overreaching, courts will refuse to enforce an unreasonable agreement at all. Some states, like Wisconsin, do not permit a court to "blue pencil" an agreement. Instead, Wisconsin courts will simply declare such a contract invalid and unenforceable if even a single provision is deemed to be overbroad. Some states also may refuse to enforce an agreement by one of their residents, even if the agreement selects the law of another jurisdiction; no matter

what law the parties have agreed will apply, the courts of these states will apply their own state law, which may have the effect of invalidating the agreement. A Minnesota employer must take care to ensure that non-competition agreements comply with the laws of the states where its employees live. If an employee lives in North Dakota, for example, the non-competition agreement may not be enforceable at all if the court applies the law of the employee's state of residence. If a court applies South Dakota law, the non-compete may be enforced for a maximum of two years, and possibly not at all. Thus, an employer with employees located in several states should carefully tailor the non-compete agreement for each employee to ensure that it is enforceable wherever the employee lives, regardless of what law is applied.

Before an offer of employment is made, employers also should determine if a prospective employee is subject to a non-competition, non-solicitation or confidentiality agreement with a prior employer that may restrict or limit that applicant's ability to perform effectively. An employer who hires a new employee without making such an inquiry may be liable for interference with the previous contract of employment and could be ordered to pay the previous employer damages, including attorney fees.[68]

Non-competition agreements do not automatically establish ownership of intellectual property and cannot prevent all forms of direct and indirect competitive damage by former employees if they have had access to valuable intellectual property. Such intellectual property may be transferred overtly or covertly to a third party without technically violating the non-compete provision.

By establishing at the outset its ownership of intellectual property, an employer may establish that the employee, ex-employee, or independent contractor has not acquired, or has assigned to the employer, certain copyrights, patents, trade secrets, or trademarks, regardless of whether that individual is subject to an enforceable non-compete agreement. If properly drafted, an assignment contract will convey those rights to the employer and prevent misappropriation.

COPYRIGHTS

To be protected under the federal Copyright Act, a work must be an original work of authorship, fixed in any tangible medium of expression now known or later developed, from which the work can be perceived, reproduced, or otherwise communicated, with or without the aid of a machine or device.[69] The phase, "original work of authorship" does not require "novelty, ingenuity, or aesthetic merit."[70] The work must, however, "possess at least some minimal degree of creativity."[71] Works subject to copyright include literary works, musical works, and dramatic works; pantomimes and choreographic works; pictorial, graphic and sculptural works; motion pictures and other audiovisual works; and sound recordings and architectural works. [72]

The presumed owner of a copyright is the party who actually creates the work. In an employer-employee relationship, the employer is presumed to be the "author" of copyrightable works created by its employees acting within the scope of their employment.[73] The employer, not the employee, owns the intellectual property that the employee creates on the job.[74]

Only works created by an employee "within the scope of employment" automatically become the property of the employer, however. The conduct of an employee is considered within the scope of employment if: (1) it is the kind of work the employee is employed to perform; (2) the employee creates the work substantially within authorized time and space limits; and (3) the work is motivated at least in part by a purpose to serve the employer.[75] An employer must prove all three elements to establish its right to copyright ownership.

A carefully drafted written agreement between the employer and the employee should confirm that the employer owns the copyright; that is, that the employee created the work within the scope of his or her employment and that, as provided by statute, the employer is the presumptive author. An agreement also should assign to the employer a copyright in any works created by the employee during the period of his or her employment. After receiving an executed assignment, the employer still is in a position to claim ownership of the copyright, even if the employee disputes the existence of one or more of the three elements necessary to show that the work was made "within the scope of employment."

In an independent contractor relationship, the independent contractor is presumed to be the author of the work and the owner of the copyright unless the work was created pursuant to a written "work made for hire" agreement[76] or is subsequently assigned to the employer.[77] An individual who performs regular work for the same employer at the same location nonetheless may be an independent contractor rather than an employee, if, for example, the employer does not withhold income taxes or Social Security benefits from payments or declines to extend benefits such as medical insurance.[78] If the individuals who create a work may be independent contractors or employees acting outside the scope of their employment, the employer must obtain an assignment of the copyright and all rights therein. To avoid any ambiguity as to ownership, an employer should routinely require all employees and independent contractors who are in a position to create copyrightable works to execute copyright assignment agreements both before and after completion of the work.

Fulfilling the requirement of a written assignment is crucial if the author is an independent contractor. The only works eligible for "work made for hire" treatment outside of the employment context are those that fall under one of nine specific categories enumerated in the federal Copyright Act as "works made for hire."[79] In those nine categories, the work of an independent contractor may be a "work made for hire" if (and only if) the parties have expressly agreed in writing that the commissioning party (the employer), not the independent contractor, is the author.[80]

An employer and an independent contractor cannot by agreement transform a work into one "made for hire" unless the work falls into one of the nine statutory categories. Therefore,

contractual language that states that the work of an independent contractor is a "work made for hire" may be ineffective to transfer copyright ownership. In that case, the independent contractor, not the employer, may retain copyright ownership. It is less important for the employer to obtain an agreement designating the work as one "made for hire" than it is for the employer to obtain an unequivocal assignment of ownership.

PATENTS

Although rules of ownership applicable to copyrighted works are established by statute under the federal Copyright Act, ownership of inventions is generally governed by applicable state law, which may vary from jurisdiction to jurisdiction. Absent an agreement to the contrary, the law vests ownership of inventions in the inventing party, whether that party is an employee or an independent contractor. This may be true even if the employer paid for the invention or otherwise had some expectation of ownership. Thus, carefully drafted written documents assigning to the employer inventions created by both employees and independent contractors are essential to protect an employer's intellectual property.

Given the general rule applicable to traditional employment relationships, it is not surprising that independent contractors are in an even stronger position to assert ownership of their inventions in the absence of an express agreement to the contrary. Thus, employers should start with the presumption that, unless there is an agreement to the contrary, employees, consultants, and independent contractors own the inventions they have created. The employer must obtain an assignment in almost every situation.

Despite the general rule vesting ownership of inventions in both employees and independent contractors, employers may obtain rights to these inventions by receiving an express assignment of ownership in the invention. Employers also may obtain ownership under the "hired to invent" doctrine or the "shop rights" doctrine, and when the employer obtains an express assignment of ownership in the invention. To obtain patent rights by any of these means, an employer must take affirmative steps to protect its interest in intellectual property. Employers also may obtain rights to the inventions of officers, directors and agents under a "fiduciary duty" analysis.

Under the traditional "hired to invent" rule, if an employee is initially hired or later directed to invent or attempt to invent a particular invention, the employer is entitled to ownership of resulting patents.[81] The absence of an express agreement will not always prevent an employer from successfully asserting patent rights, however. An implied-in-fact contract may arise between an inventor and his employer, where the employee was required by the employer to work on a particular project and used the employer's resources to develop the invention in dispute. This is particularly true if there were co-inventors who were other employees of the employer, and where the employer paid for a patent application.

Courts are generally reluctant to apply the "hired to invent" doctrine if the employee was not in fact hired to invent or was retained only to perform general research functions. An employee also may retain ownership of an invention when he or she has been hired to create a specific invention but later creates a different invention outside his or her assigned duties. The "hired to invent" doctrine is most typically applied in the context of traditional employer-employee relationships, and courts are reluctant to apply the rule to independent contractors.

In addition to the "hired to invent" doctrine, courts have recognized the "shop rights" doctrine under which employers may be entitled to limited rights in an employee's invention based on the particular facts of the case. Under the "shop rights" doctrine, the actions of an employer and employee may lead to the assumption that the employee accepted the employer's assistance in exchange for granting the employer limited future use of an invention, i.e., an "implied-in-fact" license.[82] An employee who induces an employer to rely on the use of an invention cannot later deny the employer a right to use the invention, or seek additional compensation. For example, an employee who invented a device useful in retail display of merchandise and who persuaded her employer to demonstrate that device in retail stores is likely to be prohibited, after obtaining a patent, from demanding a license fee from that employer for future use.

Regardless of its application to employees and independent contractors, the limited doctrine of "shop rights" does not vest actual ownership of patent rights in an employer. Instead, those rights will be held by the inventor and licensed, free of charge, to the employer. The employer may not assign or otherwise transfer its limited "shop rights" to a third party. An express assignment of rights is clearly superior to obtaining a limited "shop rights" interest.

The employer also may acquire patent rights when there is a special trust relationship with the inventor. Essentially, this rule is based on the notion that corporate officers and directors owe a fiduciary duty to the employer preventing them from competing with the employer or usurping "corporate opportunities."[83] The fiduciary duty analysis is helpful in preventing influential employees from abusing their position to the detriment of a corporation, but the doctrine is of limited utility because it applies only to certain officers, directors and agents.

The favored method by which an employer acquires employee inventions is to enter into an express contract with the employee or independent contractor. By statute, an employment agreement cannot require an employee to assign, or offer to assign, an employee's invention to the employer if no equipment, supplies, facilities, or trade secret information of the employer is used to create the invention and the invention is developed entirely on the employee's own time.[84] The employee is entitled to this protection by law, provided that the invention does not result from any work performed for the employer, or does not relate directly to the employer's business or to its actual or demonstratively anticipated research or development. An employment contract provision forcing the inventor to assign an unrelated invention is void and unenforceable. In addition, an employer cannot require that the employee assign such an invention as a condition of employment or continuing employment (of course, nothing prohibits the employer from negotiating for an assignment from an employee in exchange for valid consideration, such as a cash payment). Finally, an employment agreement that contains

an invention assignment provision also must provide written notification to the employee that the agreement does not apply to inventions created outside the scope of employment.[85]

Employers also must be cautious about exposing new inventions to employees. Under the federal Patent Act,[86] an inventor forfeits patent protection if the invention is in public use for more than one year before the patent application is filed.[87] Public use even may mean in-house testing among employees, if it takes place more than a year before the patent application is filed and other precautions have not been taken.[88] To guard against forfeiting potentially valuable patent rights by testing inventions with employees, an employer must maintain strict secrecy requirements, confirm in writing the secrecy obligation of each employee, maintain an experimental atmosphere, and limit the experiment to claims in the patent.

TRADE SECRETS

The Uniform Trade Secrets Act, adopted by Minnesota, defines a trade secret as "information" that:

a) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[89]

Trade secrets may be unique principles, engineering logic, coherence and computer software, but they also may be customer lists and marketing information. A trade secret may modify and improve standard models to such an extent that a newer version becomes unique in the industry. Generally known information may gain trade secret protection because of a peculiar combination of data. If the exact combination of certain features is unique, even though none of the processes or features is unique in an industry, and exact combinations are the only way to achieve the required performance, a trade secret may exist. Several competitors with the same information hypothetically could own trade secret rights in the same information, if each maintained the appropriate protections.

It is difficult to prevent an employee from discovering trade secrets, particularly if that employee is among the group who developed the secret. An employer must, however, take precautions to protect its trade secrets from further disclosure. Precautions include restricting physical or computer access to sensitive areas; physical protection, such as security guards, personnel badges and restricted access areas; restricting copying and dissemination of sensitive information; putting employees "on notice" of trade secrets by marking documents or computer files as "secret" or "confidential;" requiring that only employees who "need to know" have

access to secrets; and obtaining confidentiality agreements from the employees who have access to trade secret information.

An employer's efforts to maintain the secrecy of information need not be perfect, but its measures must be reasonable under the circumstances. The employer's systematic use of confidentiality agreements is one valuable weapon in this arsenal. An employer should require most, if not all, employees to execute agreements acknowledging that the company owns trade secrets and promising never to disclose them, either during employment or after termination. Such an agreement (1) confirms that the employee is aware of a duty to maintain secrecy; (2) refutes any claim the employee may assert to ownership; and (3) puts the employee in a difficult position–he or she cannot, without contradicting an earlier signed statement, claim that what was once acknowledged as a secret is now publicly known or independently created. Moreover, the use of such an agreement will help an employer to demonstrate that it took "reasonable steps" to maintain the confidentiality of its trade secrets, a prerequisite to protection under the Uniform Trade Secrets Act.

The Computer Fraud and Abuse Act ("CFAA")[90] may provide employers with additional protection against employees or former employees who unlawfully access company computers to copy or transmit proprietary information directly or indirectly to themselves or to new employers. Although the courts have offered differing interpretations of the CFAA,[91] the statute may provide a mechanism for obtaining an injunction, damages, and attorney fees against anyone, including a former or soon-to-be-departing employee, who uses the employer's computers to loot trade secrets or other valuable intellectual property.

TRADEMARK AND SERVICE MARKS

An employee or independent contractor who conceives of a successful trademark or trade name may conclude that the mark is personal, not employer, property. As a matter of law, however, if the employer has used the mark, the employee has little or no claim to ownership of it. Unlike patent law, rights in trademarks and service marks are not gained through discovery or invention, but only through actual use.[92] The person who first conceives the idea of using a given symbol as a mark does not automatically receive trademark priority. An employer who uses a mark conceived by an employee, or a client who uses a mark conceived by an independent contractor such as an advertising agency, ordinarily acquires the trademark rights.

In some cases, however, an employee or independent contractor who, by contract, establishes ownership of trademarks, ideas or concepts will be able to take them with her when he or she departs, depriving the employer of its investment in the good will attached to the trademark.[93] For complete protection, an employer should require each employee or independent contractor to assign in writing any trademark rights in marks or titles that he or she has created.

[63] Softchoice, Inc. v. Schmidt, 763 N.W.2d 660, 667 (Minn. App. 2009)
[64] Bennett v. Storz Broadcasting Co., 270 Minn. 525, 534; 134 N.W.2d 892, 899 (1965).
[65] Ecolab, Inc. v. Gartland, 537 N.W.2d 291, 294 (Minn. App. 1995)
[66] Burke v. Fine, 608 N.W.2d 909 (Minn. Ct. App. 2000), rev denied June 13, 2000.
[67] Davies & Davies Agency, Inc. v. Davies, 298 N.W.2d 127, n.1 (Minn. 1980).
[68] Kallok v. Medtronic, Inc., 573 N.W.2d 356 (Minn. 1998).
[69] 17 U.S.C. § 102(a) (2011).
[70] H.R. Rep. No. 1476, 94th Cong.2d Sess.51 (1976).
[71] Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 344 (1991).
[72] 17 U.S.C. § 102(a) (2011).
[73] 17 U.S.C. §§ 101; 201 (2011).
[74] 17 U.S.C. §§ 101; 201 (2011).
[75] PFS Distrib. Co. v. Raduechel, 332 F. Supp.2d 1236, 1248 (S.D. Iowa 2004).
[76] Kirk v. Harker, 188 F.3d 1005, 1007-08 (8th Cir. 1999).
[77] Id.
[78] Id.
[79] 17 U.S.C. § 101 (2011).
[80] 17 U.S.C. §§ 101; 201 (2011).
[81] Banks v. Unisys Corp., 228 F.3d 1357, 1359 (Fed. Cir. 2000).
[82] Univ. Patents, Inc. v. Kligman, 762 F. Supp. 1212, 1220 (E.D. Pa. 1991).
[83] Miller v. Miller, 222 N.W.2d 71 (Minn. 1965).
[84] Minn. Stat. § 181.78 (2011).
[85] Id.
[86] 35 U.S.C. § 101 *et seq*. (2011).
[87] 35 U.S.C. § 102(b) (2011).
[88] Minnesota Mining and Mfg. Co. v. Appleton Papers, Inc., 35 F. Supp.2d 1138 (D. Minn. 1999).
[89] Minn. Stat. § 325C.01, subd. 5 (2011).
[90] 18 U.S.C. § 1030 et seq.
[91] *Compare* Cenveo Corp. v. CelumSolutions Software GMBH & Co., 504 F.Supp.2d 574 (D. Minn. 2007) (no injunction or damages available unless computer access caused interruption of computer service) *to* Southwest Airlines Co. v. Farechase, Inc., 318 F. Supp. 2d 435, 439 (N.D. Texas 2004) (allegation of $5,000 loss sufficient to state claim).
[92] Minn. Stat. § 333.18 et seq. (2011).
[93] Connelly v. Valuevision Media, Inc., 393 F. Supp. 2d 768 (D. Minn. 2005).