Legal Matters

Best practices for employee confidentiality and proprietary rights agreements

William Shakespeare once said, "Better three hours too soon than a minute too late." While the advice is offered in a different context, the words hold equal importance in the implementation of a corporate intellectual property (IP) strategy or policy.

Beginning early is particularly important when establishing a relationship with new employees and other third parties, such as contractors, suppliers, joint-development partners, and even customers. For example, in the United States, an invention created by an employee or an independent contractor is owned by that employee or contractor, regardless of compensation paid. Thus, it is important that any and all agreements for services, including employment agreements, contain clauses specifying who owns the intellectual property rights in any work product created during a relationship.

Since employees or independent contractors are the primary source of a company's intellectual property, an important early start is to specify ownership rights in intellectual property in writing at the onset of the employment relationship. Such an agreement, often referred to as an "Employee Confidentiality and Proprietary Rights" agreement (or similar) sets forth an employee's obligations and rights with respect to any intellectual property created by the employee during her course of employment. At a minimum, the agreement is a contract that grants the employer ownership rights to inventions created or conceptualized by the employee (or contractor) during the employment relationship. Ideally, it also requires the employee to promptly disclose any invention to the employer, to "assign" (legally transfer) ownership rights in the invention to the employer and to assist the employer in obtaining a patent in the invention. Moreover, such obligations should persist even if the employment relationship ends.

In addition to inventions, the agreement should accommodate ownership of other forms of IP as well. For example, terms should specify that works of authorship created within the scope of employment will be considered works made for hire under the Copyright Act, and thus owned by the employer. Ideally, the agreement assigns to the employer all work product related to the employer's business and contemplated business that is created by the employee, including discoveries, proposals and ideas.

While ownership of IP is critical, such agreements ought to address additional rights and obligations as well. For example, during a typical employment relationship an employee has access to an employer's confidential information and trade secrets, such as business processes, research, business and marketing strategies, potential transactions, pending negotiations, know-how, software design, financial and pricing information, security procedures, algorithms and customer information. The agreement should clearly specify an employee's obligations and duties regarding this type of valuable information, including an acknowledgment of a duty to keep the information confidential and the circumstances of when, how and to whom disclosure of confidential information is permissible. Ideally, the agreement also provides guidance about steps the employee must take to protect confidential information from inappropriate use or disclosure.

Other provisions might also be included in a Confidentiality and Proprietary Rights agreement — again, with the objective of having a clear understanding between employer and employee sooner rather than later. Such terms may vary depending on the nature of the employer's business, the anticipated responsibilities of the employee, and even applicable state law(s). For example, a waiver and release of claims concerning an employee's rights of publicity and privacy if the employer plans to use the employee's name, voice, likenesses or biographical information for marketing, advertising or publicity purposes might be warranted. If the employer business involves software development, the agreement might specify circumstances under which the employee may or may not utilize code subject to open source license restrictions.

While the agreement is primarily concerned with obligations of the employee during employment, it also should address obligations that remain post-employment. As noted above, the employee's confidentiality obligations should survive termination of the employment relationship, regardless of the reason for termination. Ideally, the agreement should specify a procedure to minimize the risk that the employee may disclose confidential information following termination of employment, such as by requiring the employee to return all confidential information in the employee's possession immediately on termination of employment or

see LEGAL MATTERS page 14