AVOIDING AN INTELLECTUAL PROPERTY RIGHTS QUAGMIRE: COME BACK WITH MY IDEA!

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Employment relationships in high tech firms are usually relatively uneventful. That is, until it comes time for the employee to move on.

During the course of employment, a software engineer or Web site developer often occupies a position of trust in their company, one that exposes them to proprietary information, sometimes consisting of their very own work. But the same relationship that made the employment profitable for both parties can become the focus of disagreement or even litigation when the person leaves. Who owns the employee's work product? To what extent can the employee use that work product in a new job? Can a company stop a former employee from sharing with business competitors the work product and other information learned on the job?

The answers to these sorts of questions have required courts and legislatures to balance the rights of both employer and employee under competing principles of public policy. High tech firms are entitled to protect proprietary information from disclosure to their competitors and to enjoy the fruits of their business operations. Employees, on the other hand, are likewise entitled to seek gainful employment wherever they choose and to use work product and experience that is rightfully theirs in pursuing career goals. The legal focus of this conflict lies in three aspects of the law: 1) Employment agreements forbidding a former employee from competing with the employer; 2) trade secrets and confidentiality; and 3) the law of copyright.

Covenants Not-To-Compete

When a company hires a new worker, it will frequently try to limit upfront any damages that could result from one day firing that person. It can do so by getting them to sign a covenant not-to-compete, a.k.a. a non-compete agreement. These agreements sometimes take the form of restrictions to the geographical area in which a former employee can engage in the same business as the employer, or a time restriction, such as a "waiting period," before an employee may do so.

For example, a programming engineer may agree at the outset of employment to restrict his or her post-employment activities to an area outside the state or city where the employer is located for a term of years, or until a time when the former employee's services would no longer give a competitor a market advantage.

Generally speaking, covenants not-to-compete of this sort are illegal in California. The California Business & Professions Code is clear: "Except as provided - every contract by which anyone is restrained in engaging in a lawful profession, trade, or business of any kind is to that extent void."

The exception to this statutory rule is the sale of a business. The parties to an agreement for sale of a business can enter into a valid agreement in which the seller agrees to refrain from carrying on a similar business in a specific geographical location. But in the case of simple employer/employee relationships, non-compete covenants are void from the outset.

An employment agreement may, however, restrict an employee from soliciting other employees or customers to end their relationships and follow the employee to his or her new job. Further, the law against covenants not-to-compete doesn't hold that a former employee can use proprietary information in violation of a confidentiality agreement or by misappropriating an employer's trade secrets.

Beyond its general illegality in California, the covenant not-to-compete remedy is really the least desirable of several means by which an employer and employee can fairly define their respective rights when an employee leaves the firm.

Trade Secrets and Confidentiality Agreements

In a high tech business, the product of an employee's work is often a trade secret. And disclosing that secret to competitors could cause the firm to lose market share. High tech companies are protected to a degree under trade secret statutes and can further protect themselves under an agreement of confidentiality between themselves and any employee charged with creating, say, a new database algorithm or pacemaker valve. Once again, however, the competing interests of an employee's right to earn a gainful living must be taken into account before an employer relies on trade secret confidentiality.

A trade secret is generally defined as information that has independent economic value to the firm, is not generally known in the industry or the public, and is the subject of reasonable efforts to keep it secret. Categories of information that may be deemed trade secrets are proprietary technical work product such as computer programs, customer lists, product designs, and marketing information. In some cases, trade secrets may include an employee's special knowledge acquired during employment.

Though a confidentiality agreement is not necessary for an employer to protect its trade secrets, well-written confidentiality agreements can be a legally recognized method of assuring additional protection for the employer. The parties to any such confidentiality agreement, however, should be aware of the legal limits of their validity.

The battleground for confidentiality agreements in the courts is not so much the validity of the contract, but the sort of information that a court will acknowledge as "confidential" in the first place. The competing policy is that former employees are permitted to use information that they develop as part of the knowledge and skill acquired by virtue of employment. As one California court stated: "An employee's skill and knowledge of a particular business constitutes the means by which he earns a living and the court should not hastily brand them as confidential where this will deprive him of employment opportunities."

Accordingly, customer lists are not afforded trade secret protection and may be used by former employees when the employee created the list as a result of personal contacts with the customers. Likewise, general knowledge and skill acquired through work experience may be used in later employment without incurring liability for trade secret infringement. As one California court described the problem, employees cannot be forced to "wipe clean the slate of their memories."

This right does not, however, extend to specific company information that has monetary value. The California Labor Code makes clear that everything of value that an employee acquires by virtue of his job belongs to the employer, except for the employee's compensation. Work product that is kept a trade secret, therefore, is deemed the property of the employer with few exceptions. If an employer takes reasonable precautions to keep proprietary information secret, a former employee has an obligation not to disclose the information after termination of employment. The rule does not apply to "works of authorship" created by the employee entirely on his or her own time unless they are related to, or result from, work done for the firm. Rights to copyrightable "works of authorship" are defined by United States Copyright Law.

'Works Made for Hire' Under U.S. Copyright Law

A common issue of ownership of high tech work product arises with "works of authorship" that include computer programs, Web site design, and other works that are protected under the U.S. Copyright Act. Copyright protection attaches immediately whenever an original work of authorship is fixed in any tangible medium of expression. In other words, once the creator has written a code or designed a Web site, the creator automatically becomes the owner. Registration of a copyright with the Library of Congress is not necessary to obtain a copyright. Following the registration procedures, however, will give the creator certain procedural rights to pursue infringement claims in the courts of the United States.

Whether a high tech employee has gained an automatic copyright in his or her work product frequently first depends upon whether the work is a "medium of expression" of ideas rather than mere processes. A "medium of expression" may or may not be found within the context of engineering components such as computer programs or sub-routines that merely provide structure, sequence, organization, or interface. If, on the other hand, the programming represents a "creative organization and sequencing" arranged in a unique manner to create a purely arbitrary data stream, the program itself may be copyrightable. Accordingly, while unique expressive content that makes up a Web site may be copyrightable in form, the underlying source code in hypertext markup language (html) may not.

The remedy to avoid claims of copyright ownership in proprietary work product such as these is relatively simple. The employer and employee need only declare, in writing, their intent as to the rights of ownership in "works of authorship" that the employee creates on the job. Copyrightable work made for the benefit of the employer is known as a work made for hire under the U.S. Copyright Act. Rights to the work attach to the employer rather than the employee who created it when the parties so agree in writing. Absent evidence of a written agreement for a work made for hire, however, a court will presume that the work belongs to the employee who created it, rather than the employer.

Staying Out of Trouble

Ownership rights in intellectual property created on the job call into play several areas of law. These legal principles balance the rights of both the firm and its employees, but frequently do not address problems that fall into "gray areas" or simply do not fit the legal paradigm. The best solution to avoid an ambiguity of rights is for employers and employees in the high tech arena to understand and make known their respective intentions at the outset of the relationship. Relatively simple non-disclosure agreements and written declarations of rights to ownership upon hire can go a long way to assure a smooth and uneventful transition when a valuable and trusted employee leaves the firm.