

Protecting Your Company's Intellectual Property from Predation by Employees and Independent Contractors

by: David R. Bohm

The success of a company in the technology sector is largely dependent upon its intellectual property, which, in turn, is derived from investment in human capital. It is the company's employees (as used herein, the term "employee" will include independent contractors and contract employees) who develop software, invent new products or techniques, and generate other types of trade secrets and confidential information. Today, because employees are more mobile than ever, it is extremely important that businesses take precautions to keep their intellectual property from being utilized by an employee who goes to work for a competitor.

Patent and copyright law provide an entrepreneur some rights in relation to employees involved in developing patented or copyrighted material. Additionally, an entrepreneur has some common law rights in its trade secrets and confidential information. However, in order for a business to fully protect its interests in intellectual property developed and utilized by it, it is important to implement written agreements that specifically address the rights of the business and its employees relative to such inventions and information.

In this respect, one size certainly does not fit all. Instead, it is important that agreements between businesses and their employees be customized to address their specific circumstances. More and more, Courts in Missouri are refusing to enforce overly broad restrictions against competition by former employees. The remainder of this document will contain an outline regarding various types of provisions an entrepreneur may wish to consider including in employment agreements, and various considerations with regard to each type of provision.

I. Pre-Invention Assignment Agreements.

- A. Such agreements allow a business to obtain exclusive property rights of patentable inventions developed by its employees.
- B. Without such an agreement, an employee may own the invention. In some cases, the employer may have a non-exclusive license to the invention. However, if the invention was developed on the employee's own time, the employer may have no interest in the invention, even though it relates to the employer's business.
- C. Continued employment is sufficient consideration for a pre-invention assignment agreement.
- D. Such agreements may specify certain categories of inventions assigned to the employer, or provide "blanket" coverage of any and all inventions.

II. **Copyright Assignment Agreements.**

- A. These are similar to pre-invention assignment agreements. A software developer will want to have pre-invention and copyright assignment provisions in its employment agreements.

III. **Trade Secret/Confidential Information Non-Disclosure Agreements.**

- A. Trade secrets and confidential information of a business include such things as formulas, patterns, devices, and compilations of information used by a business which the business has taken precautions to keep secret and from which it derives economic benefit. Generally, in order for something to constitute a trade secret or confidential information, an employer must restrict access to such information to employees who have a reasonable need to see it.
- B. Such agreements generally prohibit an employee, either during the term of his/her employment or thereafter, from disclosing trade secrets or confidential information to any third party, or from utilizing such information for the employee's own benefit.
- C. To the extent possible, such agreements should specify the type of information that the business considers to constitute trade secrets or confidential information. This is so the employee cannot claim that he/she did not have notice that a particular piece of information was a trade secret or otherwise confidential to the business.

IV. **Non-Compete Agreements.**

- A. A significant minority of states (e.g., California and Georgia) have held non-compete agreements are unenforceable. Generally, the law of the state where the employee will perform most services (or if he is a traveling employee, the state in which he lives) will control whether or not the agreement is enforceable. Some states will refuse to enforce such agreements as to their residents, even if the agreement would be enforceable in the state where the agreement was executed or performed.
- B. Must be reasonable as to both temporal and geographic scope. What is reasonable differs from state to state.
- C. Such agreements are disfavored by the Courts, and will generally only be enforced if the employee had access to trade secrets or confidential information.
- D. In the St. Louis City and County Circuit Courts, the Courts will generally not enforce non-compete agreements if the employer's interests are adequately protected by a non-solicitation agreement.

V. **Non-Solicitation Agreements.**

- A. Some states that will not enforce a non-compete will enforce a non-solicitation agreement. These agreements generally prohibit an employee from soliciting the customers of his/her former employer for a set period of time.
- B. Such agreements will generally be enforced for a period of two to three years following termination of employment. A non-solicitation agreement need not include a geographic limitation.
- C. Leads and prospects are generally not protectable under a non-solicitation agreement.

VI. **Agreements Prohibiting Solicitation of Employees.**

- A. It has been quite common for companies to include provisions in their employment agreements prohibiting employees, after termination of their employment, from trying to lure away other of the company's employees. However, the Missouri Court of Appeals for the Eastern District of Missouri has recently held such provisions to be unenforceable. The court held that "an employer does not have a proprietary interest in its employees at will or in their skills." **Schmersahl, Treloar & Co. v. McHugh**, 2000 WL 1051831. The Missouri Supreme Court refused to hear the case.

VII. **Pre-Employment vs. "After-Thought" Agreements.**

- A. Courts in Missouri have held that continued employment generally constitutes sufficient consideration for the various types of restrictive covenants discussed above, so that they may be entered into at any time during the course of employment. However, questions remain as to whether continued employment will be sufficient consideration in all circumstances. The better practice is to either enter into restrictive covenants at the time an employee is hired, or in conjunction with a raise or promotion.

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