

Don't Let Your IP Walk Out the Door

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Your employees can be your company's most valuable asset — but they also represent your greatest vulnerability when it comes to protecting confidential information and intellectual property (IP). To protect confidential information and IP, it's not only about who you hire, but also how well you protect what they create. That's where non-disclosure agreements and assignment of invention agreements come into play, keeping your company's IP from walking out the door.

Non-disclosure agreements (NDAs). An NDA is a legally binding contract that prohibits the recipients of confidential information, such as employees, from disclosing or using it outside the scope of their employment. NDAs are designed to protect information ranging from business strategies and plans to customer lists and pricing models to proprietary technical knowhow, product designs, and trade secrets — the kinds of information that can be protected abound.

For employers, having a new employee sign an NDA is not just about allowing for enforcement if an employee inappropriately discloses sensitive information or walks off the job with trade secrets; NDAs are an important tool for preventing such things from happening in the first place. With an NDA in place, employees are more likely to treat sensitive information responsibly when the boundaries are clearly spelled out from the outset.

NDAs should cover the basics of what information is considered confidential; how that information may be used and how it should be protected from public disclosure; how long the obligation of confidentiality lasts, which is often beyond the term of employment and in perpetuity for trade secrets; and the remedies available to the employer if the agreement is breached.

NDAs should also be combined with training on the company's policies for protecting confidential information and trade secrets for new employees, as well as exit interviews, reminding exiting employees of the obligations that they agreed to before they leave. Employees should be trained on and periodically reminded of the types of information the company considers confidential or a trade secret, so that an employee (or former employee) cannot genuinely claim ignorance of what information is to be protected.

Assignment of invention agreements (AIA). AIAs ensure that the intellectual property developed by an employee belongs to the company, not the individual. The default rule in the U.S. is that an inventor is the owner of his or her invention. While there is case law that presumes an implied contract for employees who are employed for the express

purpose of inventing that any resulting invention is the property of the employer, it is preferable not to rely on such implied-in-fact agreements. The AIA contract is thus an express agreement in which employees assign ownership of certain inventions, ideas, or works they create during their employment to the employer.

An effective AIA typically covers: inventions made during the employee's tenure at the employer; "work made for hire" language for copyrightable works like software or written materials; inventions that arise later but are the result of work during the employee's tenure; and requirements to disclose all inventions and copyrightable works that fall into one of the prior categories, even if the employee believes it is unrelated to their employment. The disclosure requirement is particularly important because, often, the employee making the invention is the only one who knows about it until it is disclosed to others at the company. A company cannot protect an invention that it does not know it has in the first place.

An important practice tip for employee AIAs is to include present assignment language (such as "I hereby assign"), not just a promise to assign future inventions at a later date. The reason is twofold. First, present assignment language places ownership of any future invention or copyrighted work in the hands of the employer immediately. There is no need to wait for the employee to assign it afterward. Of course, individual confirmatory assignments can help create a further paper trail, but they are not strictly required. Second, if the employee leaves, becomes antagonistic to the company, or even passes away, the present assignment language gives the employer proof of ownership to record in circumstances where the employee refuses or cannot execute subsequent assignments.

Both NDAs and AIAs matter. NDAs protect information, keeping your secrets in-house. AIAs secure ownership, ensuring your company — not your employee — retains legal rights to inventions. For example, a scientist might sign an NDA not to disclose a proprietary process or formula. But without an AIA, they could leave the company, tweak the process or formula slightly, and claim it as their own — possibly even securing a patent. Now, your competitor could own a version of your core IP. NDAs and AIAs used in conjunction prevent that IP from walking out the door.

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