

Oyez!

Winter

Newsletter for the Young Lawyers Division

2009

Securing Rights in Intellectual Property from Employees and Independent Contractors

By Justin Ford McNaughton

As a general rule in the United States, whoever develops a trade secret, invents something (and receives a patent) or creates an original work of authorship (e.g., software, paintings, photographs, movies, and music)

owns the right to control that secret, patented invention or work of authorship. This general rule makes good sense and is very straightforward for inventors, authors and programmers themselves. However, as many businesses are not sole proprietorships, ownership becomes more complicated if a third party must create the work. Special care is required to ensure that the correct party owns a project; simply paying for the work is not enough. Although it is impossible to set out all of the scenarios in a short article, it is my intention to emphasize the importance of written agreements when intellectual property is being created and set out the largest considerations when assisting someone in steering ownership of intellectual property into the correct hands or determining authorship after it is created.

Preliminary Consideration – Employee or Independent Contractor

Often the first consideration of ownership will be to determine whether the person creating/inventing the work is acting as an employee or as an independent contractor. While this article will not discuss the nuances of who constitutes an employee, generally, if a person is considered an employee under the common law, the person will also be considered an employee for intellectual property ownership purposes.^[1] At the other end of a spectrum, is the independent contractor. Among many factors, some things that should be considered in determining whether or not a person is an



employee or an independent contractor are: (i) controls over the details of performance of the services; (ii) withholding of income taxes; and (iii) ownership of the tools used to perform the services.^[2]

Trade Secrets

A trade secret is any “technical, nontechnical or financial data, a formula, pattern, compilation, program, device, method, technique, process, or plan” that: (i) “derives independent economic value, actual or potential, from not being generally known;” (ii) is “not readily ascertainable by proper means by other persons;” and (iii) “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”^[3] For many companies this can be a customer list, a secret recipe or the source code of a software application. Although most people may not realize it, the vast majority of the intellectual property owned by many companies is actually in the form of trade secret.

As attorneys, we generally take no part in whether or not a trade secret has independent economic value. However, we can assist clients in meeting the last two trade secret requirements. In fact, these can often be easily met, but may depend upon the status of the person creating the trade secret. For an employee, the relationship may create a duty of confidentiality sufficient to protect the trade secret, but only if the information in question is treated as confidential.^[4] By contrast, with an independent contractor this duty of confidentiality may not be implied so easily.^[5] It is always a good practice to limit access to only those employees/persons who need to know the trade secret information

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and include a confidentiality clause in each employee (or independent contractor) agreement.

After ensuring that the trade secret will be protected, ownership of the trade secret should also be addressed. If a trade secret is developed by employees within the scope of their employment, the employer will generally be considered the owner.^[6] By contrast, in the absence of an agreement otherwise, an independent contractor will own any trade secrets it develops.^[7]

Patent Rights

A patent is a right granted by the government to exclude others from making, using, offering for sale, or selling an invention in the United States or importing the invention into the United States.^[8] A patent must be granted; there is no automatic protection of inventions (unless it also constitutes a trade secret). Generally, an employee-inventor owns a patent issued for an invention created during her employment.^[9] This is true even if the employee conceives, develops, and perfects the invention at the office using her employer's resources. The employer may receive a limited license to use the invention, if it was developed using the employer's resources, but the license cannot be assigned away from the employer.^[10]

In special circumstances where an employee was actually hired to invent, a court can find an implied agreement to transfer a patent to an employer.^[11] However, whether or not an employee was hired to invent is a question of fact.^[12] As with trade secrets, it is more difficult to prove an implied agreement with an independent contractor. The recommended method for obtaining rights in inventions created by employees and independent contractors is by a written agreement requiring assignment of those inventions.

Copyrights

A copyright is a right granted by the government to reproduce, perform, and distribute an original work of authorship.^[13] Unlike patents above, a copyright comes into existence upon creation of the work.^[14] Generally, the author of the work will own the copyright. The

Copyright Act of 1976 reverses the analysis discussed above under certain conditions. Namely, when an employee (i) creates a copyrightable work, such as software and (ii) creates the work as part of the employee's assignment at work, the work is deemed to have been created as a work made for hire by the employer.^[15] Practically speaking, this means it is unclear whether I own this article or if my employer does. As for copyrightable works created by independent contractors, the law is much clearer. Unless there is a signed writing assigning the copyright in the work, the author retains ownership of the copyright.^[16] This includes expensive software or wedding photos created on a handshake. A written assignment is advisable whenever any copyrightable materials are created.

Precautions

Even though sometimes the law may favor your client with ownership in the absence of a written agreement, it is a good practice to have intellectual property assignment provisions and confidentiality obligations in all agreements requiring the creation of intellectual property. This prevents the need for gambling as to whether or not a particular person will be considered an employee and whether or not, as an employee, that person is required to assign valuable intellectual property.

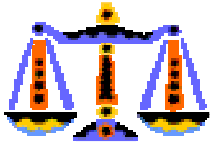
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Calendar of Upcoming Events...

February:

20 & 21 – Mock Trial

28 – Race Judicata VI



**Davidson County
Mock Trial Competition
wants You!**

WE NEED VOLUNTEERS!

**PLEASE MARK YOUR CALENDARS
FEBRUARY 20 & 21, 2009**

This is one of the YLD's signature events and it provides a great service to the community and establishes goodwill for attorneys and the bar in general.

The YLD **needs your** help with the event as
SCORERS & JUDGES & BAILIFFS
for all rounds!

For more details please contact:

Kimberly Silvus

kimberly@gideonwiseman.com or (615) 254-0400

or

Brian Neal

bneal@fbtlaw.com or (615) 251-5574



Mark your calendars for the 6th Annual Race Judicata **Saturday, February 28, 2009**



organized by the Young Lawyers' Division of the Nashville Bar Association.

The 5K and 10K races will wind through **Percy Warner Park**. Registration is \$20 in advance and \$25 on the day of the race. To participate in **both** the 5K and 10K races, registration is \$30 in advance and \$35 on the day of the race.

All proceeds will go to the **Oasis Center**. The Oasis Center works to help young people overcome serious challenges that prevent them from transitioning into healthy adulthood. Oasis Center is committed to partnering with young people to address these challenges, including homelessness, violence, depression, and low self esteem, disconnection and failing school. It is located in Nashville and the majority of youth come from the metropolitan area and surrounding counties, although there are no geographical boundaries to services. Services are primarily available to youth ages 12-17; however, it serves youth experiencing homelessness through the age of 21.

Runners/Walkers: You don't have to be a runner to sign up for this one. Walkers as well as participants with strollers and pets are welcome and encouraged to participate.

Volunteers: For those of you who don't like to break a sweat, we are also soliciting race-day volunteers. We will need help with the registration table, water, food, parking, course monitoring, etc., so please let **Allison LaRue** (alr@sflaw.com), **Becca Brinkley** (Becca.brinkley@wallerlaw.com) or **Erin Polly** (epolly@walkertipps.com) know if you're interested.

Registration: The registration form is attached. You may mail your form to the address indicated. You may also register online at http://www.active.com/page/Event_Details.htm?event_id=1659375&assetId=2ed8727f-df11-4dad-ae7f-0ecff999980f.

T-shirts: All pre-registered participants will get a long-sleeve technical T-shirt. All participants who register for both races will receive a special bonus item that will be worth running for – trust us!

Questions:

Contact **Allison LaRue** via email alr@sflaw.com or call 259-9080.



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As an attorney, you can save your client a great deal of money by pointing out the necessity of these written assignments at the beginning of intellectual property development, whenever possible.

[1] See *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989).

[2] For a more in depth discussion of the test to determine whether or not a person is an independent contractor or an employee, see *Id.*

[3] See The Tennessee Uniform Trade Secrets Act § 47-25-1702(4).

[4] *Kelly Manufacturing, Co. v. Brower*, 1 Tenn.App. 428 (1925); *E. I. DuPont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917).

[5] “Absolute secrecy is not required, [but] there must be a substantial element of secrecy.” (*Hickory Specialties v. B & L Labs, Inc.*, 592 S.W.2d 583 (Tenn. Ct. App. 1979)).

[6] *Solomons v. United States*, 137 U.S. 342 (1890)

[7] See *Id.*

[8] 35 U.S.C. § 271.

[9] Consistent with the presumption that the inventor owns his invention, an individual owns the patent rights even though the invention was conceived and/or reduced to practice during the course of employment. *Hagood v. Hewitt*, 119 U.S. 226, 233-34 (1886). The employer may receive a limited license to use the invention, if it was developed using the employer’s resources, but the license cannot be assigned away from the corporation, even to a successor corporation.

[10] *McElmurry v. Arkansas Power & Light Co.*, 995 F.2d 1576, 1581-82 (Fed.Cir.1993).

[11] *Teets v. Chromalloy Gas Turbine Corp.*, 83 F.3d 403 (Fed.Cir.1996).

[12] *Id.*

[13] 17 U.S.C. § 106.

[14] 17 U.S.C. § 302(a); See definition of “create” in 17 U.S.C. § 101.

[15] 17 U.S.C. § 201(b). Please note that there are other, less common exceptions that apply to independent contractors under copyright law. See *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989); 17 U.S.C. § 101.

[16] 17 U.S.C. § 204.

TLAP

ARE YOU FEELING A LITTLE SAD OR “OFF”
YOUR GAME? DO YOU KNOW A LAWYER WHO
IS FEELING DEPRESSED? CALL THE
TENNESSEE LAWYERS ASSISTANCE
PROGRAM AND THEY WILL HELP YOUR OR
YOUR LAWYER FRIEND IN ANY WAY THEY
CAN. CALL THE NUMBER BELOW FOR HELP
IN DEALING WITH A RANGE OF HEALTH AND
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