



Employment Agreements

PART I. Employer's Guide to Drafting Employment Agreements	295
Why Use Employment Agreements?	295
Who Should Sign?.....	295
When New Employees Should Sign.....	296
Agreements With Current Employees.....	296
Selecting Employment Agreements You Need.....	297
Employment Agreement for Nontechnical Employees.....	297
Company's Trade Secrets	299
Nondisclosure of Trade Secrets	300
Confidential Information of Others.....	300
Return of Materials.....	300
Confidentiality Obligation Survives Employment	301
Conflict of Interest.....	301
Enforcement.....	301
General Provisions	301
Signatures	302
Employment Agreement for Technical Employees.....	302
Company's Trade Secrets	303
Nondisclosure of Trade Secrets	304
Confidential Information of Others.....	304
No Conflicting Obligations.....	305
Return of Materials.....	305
Confidentiality Obligation Survives Employment	305
Intellectual Property Ownership	306
Disclosure of Developments	307
Assignment of Developments.....	307
Postemployment Assignment.....	308

Notice Pursuant to State Law	309
Execution of Documents	311
Prior Developments.....	312
Conflict of Interest.....	312
Postemployment Noncompetition Agreement.....	313
Additional Postemployment Noncompetition Terms.....	319
Nonsolicitation.....	320
Enforcement.....	321
General Provisions	321
Signatures	321
Exhibit A.....	321
PART II. Employment Agreements From the Employee’s Viewpoint.....	321
Confidentiality of Trade Secrets	322
Intellectual Property Ownership	322
Employee-Owned Materials.....	323
Work Outside the Scope of Employment.....	323
Postemployment Invention Assignments	323
Postemployment Restrictions on Competition.....	324

This chapter is about agreements between website and software developers and their employees. Typically, the employer presents a pre-drafted employment agreement to the prospective employee when a job offer is made, or soon afterward. Part I, below, provides employers with guidance on drafting such an agreement. Part II discusses the prospective employee's concerns when presented with such an agreement.

PART I. Employer's Guide to Drafting Employment Agreements

It is essential that a website or software developer enter into written agreements with its employees. This should always be done before the employees commence work. Current employees who have not already done so should be asked to sign appropriate agreements, as discussed below.

This chapter only covers agreements between employers and employees. If you're not sure whether a worker qualifies as an employee or an independent contractor, review Chapter 15.

Why Use Employment Agreements?

Employment agreements are used by website and software developers to help accomplish the following goals:

- to make clear to employees that they are in a confidential relationship with the employer and have a duty not to disclose confidential information to outsiders without the employer's permission;
- to identify as specifically as possible what information the employer regards as confidential;
- to assign to the employer, in advance, all proprietary rights (copyright, trade secret, and patent) the employee may have in her work product; and
- where appropriate and legal, to impose reasonable restrictions on the employee's right to compete with the employer after the employment relationship ends.

Who Should Sign?

All employees who might have access to trade secrets should be required to sign an employment agreement. In order of priority, this includes:

- employees (website designers, graphic designers, Web and software programmers, software engineers, and other technical personnel) who play the key role in developing your website or software (in some companies, this is only a handful of employees);
- other employees who help develop your Web or software projects, such as technical writers and product testers;
- marketing people; and

- administrative and clerical staff who can be expected to come into meaningful contact with trade secret materials.

When New Employees Should Sign

A developer should be sure to give a new employee the agreement before he starts work—preferably, at the same time a job offer is made. This way, the hiree can take the agreement home and study it and even have his lawyer look at it. Don't wait until the employee has actually started work. At this point, after quitting his old job (and perhaps even moving), the employee may feel he has no choice but to sign the agreement as written. If you later need to enforce the agreement, a court may conclude that it was not a freely bargained contract and refuse to enforce it.

Agreements With Current Employees

To ensure that an employment agreement with a continuing employee will be legally enforceable, you should give the employee something of value in return for agreeing to abide by the agreement. The fact that you pay the employee a salary and benefits may not be sufficient, because the employee was receiving these before you asked her to sign the agreement.

Give the employee a small cash bonus, a pay raise that she wouldn't have gotten anyway, stock options, vacation time, or some other remuneration. This costs you something, but it ensures that the agreement will be enforceable. (It will also encourage the employee to sign the agreement.) The value of what you give a continuing employee for signing an employment agreement doesn't have to be enormous. But the greater the amount, the clearer it will be that there was a benefit to the employee and a binding contract was thereby created.

EXAMPLE: Burt has been working as a Web programmer for Elite Web Development since its earliest days. When he was first hired, Elite did not have him sign any type of employment agreement. A few years later, Elite management realizes that Burt, a highly skilled programmer, has been exposed to valuable Elite trade secrets and has been intimately involved in the creation of some of Elite's most valuable products. Elite decides to ask Burt to sign an agreement containing nondisclosure and invention assignment clauses. To ensure that Burt receives something of value in exchange for his signing agreement Elite gives Burt a small pay raise.

Getting Current Employees to Sign Employment Agreements

One big problem developers have with employment agreements is that they are usually not popular with employees, and some will refuse to sign them. Your employees may tell you that they know they can't divulge company trade secrets and view being asked to sign an agreement to that effect as unnecessary and an insult. This can be particularly true for small companies where the company owners and employees are (or view themselves as) friends.

Be sure to stress to any potentially offended employee that the use of such an agreement is no reflection on his character or trustworthiness. It is simply a standard legal precaution used by virtually all high-tech businesses. Also, you may need to make the agreement as palatable as possible to the employee—for example, do not attempt to impose postemployment noncompetition restrictions on the employee, as discussed below. When dealing with a truly key employee, consider offering substantial monetary or other benefits in return for signing the agreement.

Selecting Employment Agreements You Need

The following two sections contain two employment agreements:

- Employment Agreement for Nontechnical Employee (EMPLOY1 on disk), and
- Employment Agreement for Technical Employee (EMPLOY2 on disk).

Be sure to read the instructions and discussion to draft the forms; not all the provisions in the agreements may be appropriate for your situation.

Employment Agreement for Nontechnical Employees

This is an employment and nondisclosure agreement for use with nontechnical employees—that is, employees who are not expected to help develop websites or software. This includes clerical staff, production workers, personnel managers, marketing staff, sales staff, and so forth. This agreement does not contain a copyright and invention assignment clause, since such employees are not being paid to help develop copyrightable or patentable works.



CD-ROM

The full text of the following agreement is on the forms CD-ROM.

[ALTERNATIVE 1 (FOR USE WITH NEW EMPLOYEE)] In consideration of the commencement of my employment with [NAME OF COMPANY] (the "Company") and the compensation hereafter paid to me, I agree as follows:

[ALTERNATIVE 2 (FOR USE WITH CONTINUING EMPLOYEE)] In consideration of my continued employment with [NAME OF COMPANY] (the "Company") and also in consideration of [CHOOSE ONE: "the amount of \$[AMOUNT]" OR "stock options to purchase [NUMBER OF SHARES] shares of the Company's stock" OR LIST OTHER FORM OF CONSIDERATION], the receipt and sufficiency of which I hereby acknowledge, I agree as follows:

In the introductory paragraph, select Alternative 1 if a new employee will be signing the agreement, and fill in the name of the company. Select Alternative 2 if the agreement is with a current employee. Fill in the name of the company. To ensure that the agreement will be a legally binding contract, the employee should receive something of value over and above her normal salary and benefits for signing it—for example, cash or stock options. Specify the compensation to be provided.

Company's Trade Secrets

I understand that in performance of my job duties with the Company, I will be exposed to the Company's trade secrets. "Trade secrets" means information or material that is commercially valuable to the Company and not generally known in the industry. This includes, but is not limited to:

- (a) any and all versions of the Company's proprietary computer software, hardware, firmware, and documentation;
- (b) technical information concerning the Company's products and services, including product data and specifications, know-how, formulae, diagrams, flowcharts, drawings, source code, object code, program listings, test results, processes, inventions, research projects, and product development;
- (c) information concerning the Company's business, including cost information, profits, sales information, accounting and unpublished financial information, business plans, markets and marketing methods, customer lists and customer information, purchasing techniques, supplier lists and supplier information, and advertising strategies;
- (d) information concerning the Company's employees, including salaries, strengths, weaknesses, and skills;
- (e) information submitted by the Company's customers, suppliers, employees, consultants, or coventurers with the Company for study, evaluation, or use; and
- (f) any other information not generally known to the public which, if misused or disclosed, could reasonably be expected to adversely affect the Company's business.

As discussed in Chapter 7, an employee who learns trade secrets as a result of a confidential relationship with his or her employer has a legal duty not to disclose them to others without the employer's permission. This clause defines the company's trade secrets; the next clause addresses the employee's nondisclosure obligations.

Like all provisions in an employment agreement (or any other contract), this clause must be reasonable. It should not cover everything in the employee's brain. A clause that attempts to do so will likely be unenforceable in court, because it is unreasonable. You don't need to add anything to this clause; it sets out the types of information and material that should be considered to be trade secrets.

Nondisclosure of Trade Secrets

I will keep the Company's trade secrets, whether or not prepared or developed by me, in the strictest confidence. I will not use or disclose such secrets to others without the Company's written consent, except when necessary to perform my job. However, I shall have no obligation to treat as confidential any information that:

- (a) was in my possession or known to me, without an obligation to keep it confidential, before such information was disclosed to me by the Company;
- (b) is or becomes public knowledge through a source other than me and through no fault of mine; or
- (c) is or becomes lawfully available to me from a source other than the Company.

This clause bars the employee from making unauthorized disclosures of the company's trade secrets. This makes clear to the employee that he has a duty to protect the employer's trade secrets. It also shows that the employer is serious about keeping trade secrets secret.

However, as explained in this clause, the employee's nondisclosure obligation does not extend to information the employee knew before coming to work for the company, information he learns from sources outside the company, and information that is not confidential because it is public knowledge (so long as the employee didn't make it public).

Confidential Information of Others

I will not disclose to the Company, use in the Company's business, or cause the Company to use, any information or material that is a trade secret of others.

It's a good idea to remind new employees that they have a duty not to disclose to the employer trade secrets learned from prior employers or others. Employers who take advantage of such information can easily end up being sued.

Return of Materials

When my employment with the Company ends, for whatever reason, I will promptly deliver to the Company all originals and copies of all documents, records, software programs, media, and other materials containing any of the Company's trade secrets. I will also return to the Company all equipment, files, software programs, and other personal property belonging to the Company.

It's important that employees understand their obligation to return all materials containing trade secrets when they leave the company. They should be reminded of this obligation in their employment agreement and before they leave.

Confidentiality Obligation Survives Employment

I understand that my obligation to maintain the confidentiality and security of the Company's trade secrets remains with me even after my employment with the Company ends and continues for so long as such material remains a trade secret.

It's important to make clear that the employee's duty not to disclose her employer's confidential information does not end when she leaves the company, but continues for as long as the material remains a trade secret.

Conflict of Interest

During my employment by the Company, I will not engage in any business activity competitive with the Company's business activities. Nor will I engage in any other activities that conflict with the Company's best interests.

This clause is intended to make clear to the employee that he shouldn't compete with the company while employed by it or engage in any activity that may harm the company.

Enforcement

I agree that in the event of a breach or threatened breach of this Agreement, money damages would be an inadequate remedy and extremely difficult to measure. I agree, therefore, that the Company shall be entitled to an injunction to restrain me from such breach or threatened breach. Nothing in this Agreement shall be construed as preventing the Company from pursuing any remedy at law or in equity for any breach or threatened breach.

This clause is intended to make it easier for the employer to obtain an injunction—a court order—to prevent the employee from breaching the agreement. For example, you may be able to obtain a court order preventing the employee from divulging your trade secrets to a competitor.

General Provisions

These general provisions are standard in many types of legal documents and are disused in detail in Chapter 17.

Signatures

Although not absolutely necessary, it's a good idea to have the employee's signature witnessed by a company representative. This is intended to prevent the employee from later claiming her signature was forged.



CD-ROM

An example of a completed employment agreement for a nontechnical employee is on the forms CD-ROM.

Employment Agreement for Technical Employees

This agreement is for use with technical employees—Web and software programmers, Web designers, systems analysts, employees, who create documentation, software engineers, and others whose job is to help the company develop websites and/or software.



CD-ROM

The full text of the following agreement is on the forms CD-ROM.

[ALTERNATIVE 1 (FOR USE WITH NEW EMPLOYEE)] In consideration of the commencement of my employment with [NAME OF COMPANY] (the "Company") and the compensation hereafter paid to me, I agree as follows:

[ALTERNATIVE 2 (FOR USE WITH CONTINUING EMPLOYEE)] In consideration of my continued employment with [NAME OF COMPANY] (the "Company") and also in consideration of [CHOOSE ONE: "the amount of \${AMOUNT}" or "stock options to purchase [NUMBER OF SHARES] shares of the Company's stock," OR list other form of consideration], the receipt and sufficiency of which I hereby acknowledge, I agree as follows:

In the introductory paragraph, select Alternative 1 if a new employee will be signing the agreement, and fill in the name of the company. Select Alternative 2 if the agreement is with a current employee. Fill in the name of the company. To ensure that the agreement will be a legally binding contract, the employee should receive something of value over and above her normal salary and benefits for signing it—for example, cash or stock options. Specify the compensation to be provided.

Company's Trade Secrets

I understand that in performance of my job duties with the Company, I will be exposed to the Company's trade secrets. "Trade secrets" means information or material that is commercially valuable to the Company and not generally known in the industry. This includes:

- (a) any and all versions of the Company's proprietary computer software (including source code and object code), hardware, firmware, and documentation;
- (b) technical information concerning the Company's products and services, including product data and specifications, diagrams, flowcharts, drawings, test results, know-how, processes, inventions, research projects, and product development;
- (c) information concerning the Company's business, including cost information, profits, sales information, accounting and unpublished financial information, business plans, markets and marketing methods, customer lists and customer information, purchasing techniques, supplier lists and supplier information, and advertising strategies;
- (d) information concerning the Company's employees, including their salaries, strengths, weaknesses, and skills;
- (e) information submitted by the Company's customers, suppliers, employees, consultants, or co-venturers with the Company for study, evaluation, or use; and
- (f) any other information not generally known to the public which, if misused or disclosed, could reasonably be expected to adversely affect the Company's business.

As discussed in Chapter 7, an employee who learns trade secrets as a result of a confidential relationship with his or her employer has a legal duty not to disclose them to others without the employer's permission. This clause defines the company's trade secrets; the next clause addresses the employee's nondisclosure obligations.

Like all provisions in an employment agreement (or any other contract), this clause must be reasonable. It should not cover everything in the employee's brain. A clause that attempts to do so will likely be unenforceable in court, because it is unreasonable. You don't need to add anything to this clause; it sets out the types of information and material that should be considered to be trade secrets.

Nondisclosure of Trade Secrets

I will keep the Company's trade secrets, whether or not prepared or developed by me, in the strictest confidence. I will not use or disclose such secrets to others without the Company's written consent, except when necessary to perform my job. However, I shall have no obligation to treat as confidential any information that:

(a) was in my possession or known to me, without an obligation to keep it confidential, before such information was disclosed to me by the Company;

(b) is or becomes public knowledge through a source other than me and through no fault of mine; or

(c) is or becomes lawfully available to me from a source other than the Company.

This clause bars the employee from making unauthorized disclosures of the company's trade secrets. There are several good reasons for an employer to include a nondisclosure clause in its employment agreements. As we discussed in Chapter 7, information qualifies as a trade secret only if reasonable precautions are taken to keep it secret. The use of nondisclosure clauses (or separate nondisclosure agreements; see Chapter 8) is perhaps the single most important reasonable precaution.

Confidential information may not be deemed to be a trade secret when an employer does not use such agreements.

Including a nondisclosure clause in an employment agreement makes clear to the employee that he has a duty to protect the employer's trade secrets. It also shows that the employer is serious about keeping trade secrets secret.

This clause clearly defines employee obligations regarding trade secrets, which will also make it easier to obtain relief in court if an employee or ex-employee makes unauthorized disclosures.

However, as explained in this clause, the employee's nondisclosure obligation should not extend to information the employee knew before coming to work for the company, information he learns from sources outside the company, and information that is not confidential because it is public knowledge (so long as the employee didn't make it public).

Confidential Information of Others

I will not disclose to the Company, use in the Company's business, or cause the Company to use, any information or material that is a trade secret of others. My performance of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by me prior to my employment by the Company.

It's a good idea to remind new employees that they have a duty not to disclose to the employer trade secrets learned from prior employers or others. Employers who take advantage of such information can easily end up being sued.

No Conflicting Obligations

I have no other current or prior agreements, relationships, or commitments that conflict with this Agreement or with my relationship other than the following: [SPECIFY; IF NONE, SO STATE].

Many workers in the Web and software development industries have previously signed employment agreements or consulting agreements that may conflict with their ability to work for you—for example, because they contain noncompetition restrictions or restrictions on disclosure of trade secrets that may touch upon the work the employee will perform for you. To make sure this isn't a problem, the agreement asks the employee to list any such prior agreements. If there are any, obtain copies and review them to make sure the employee isn't in any way barred from working for you.

Return of Materials

When my employment with the Company ends, for whatever reason, I will promptly deliver to the Company all originals and copies of all documents, records, software programs, media, and other materials containing any of the Company's trade secrets. I will also return to the Company all equipment, files, software programs, and other personal property belonging to the Company.

It's important that employees understand their obligation to return all materials containing trade secrets when they leave the company. They should be reminded of this obligation in their employment agreement and before they leave.

Confidentiality Obligation Survives Employment

I understand that my obligation to maintain the confidentiality and security of the Company's trade secrets remains with me even after my employment with the Company ends and continues for so long as such material remains a trade secret.

It's important to make clear that the employee's duty not to disclose her employer's confidential information does not end when she leaves the company, but continues for as long as the material remains a trade secret.

Intellectual Property Ownership

I understand that as part of my job duties I may be asked to create, or contribute to the creation of website pages, website content, computer programs, documentation, and other copyrightable works. I agree that any and all website pages, website content (including HTML script, designs, forms, text, music, graphics, photographs and videos), computer programs, work-up files, documentation, and other copyrightable materials that I am asked to prepare or work on as part of my employment with the Company shall be "works made for hire" and that the Company shall own all the copyright rights in such works. IF AND TO THE EXTENT ANY SUCH MATERIAL DOES NOT SATISFY THE LEGAL REQUIREMENTS TO CONSTITUTE A WORK MADE FOR HIRE, I HEREBY ASSIGN ALL MY COPYRIGHT RIGHTS IN THE WORK TO THE COMPANY.

Where technical employees are involved, clauses that assign intellectual property rights (transfer rights of ownership) to the employer are even more important than nondisclosure clauses. This clause covers assignment issues, as do these clauses discussed below:

- "Disclosure of Developments" clause;
- "Assignment of Developments" clause; and
- "Post-Employment Assignment" clause.

Copyrightable works created by employees within the scope of their employment are "works made for hire" to which the employer is considered the "author" for copyright purposes. (See Chapter 15.) However, it is dangerous for employers to rely solely on the work made for hire rule. This is because of possible legal uncertainty regarding who is an "employee" for copyright purposes, and when copyrightable works are created within the scope of employment. Therefore, the employee should be required to assign, in advance, all copyright rights in work-related works to the employer.

This clause makes clear that the employee may create copyrightable works as part of his job and that such works will be works made for hire. But if for some reason the work for hire rule does not apply, the employee assigns all copyright rights in work-related works to the employer.

Disclosure of Developments

While I am employed by the Company, I will promptly inform the Company of the full details of all my inventions, discoveries, improvements, innovations, and ideas (collectively called “Developments”)—whether or not patentable, copyrightable, or otherwise protectible—that I conceive, complete, or reduce to practice (whether jointly or with others) and that:

- (a) relate to the Company’s present or prospective business, or actual or demonstrably anticipated research and development; or
- (b) result from any work I do using any equipment, facilities, materials, trade secrets, or personnel of the Company; or
- (c) result from or are suggested by any work that I may do for the Company.

[IN WASHINGTON STATE, ADD THE FOLLOWING: “The Company will maintain a written record of all such disclosures for at least five years.”]

The employee must be required to disclose promptly to the employer any and all work-related inventions and other developments she creates. This clause complies with state restrictions on invention assignments discussed in the “Assignment of Developments” clause, below.

In the state of Washington you must include the paragraph on the disk that states that the Company will maintain a written record of all such disclosures for at least five years.

Assignment of Developments

I hereby assign to the Company or the Company’s designee, my entire right, title, and interest in all of the following, that I conceive or make (whether alone or with others) while employed by the Company:

- (a) all Developments;
- (b) all copyrights, trade secrets, trademarks, and mask work rights in Developments; and
- (c) all patent applications filed and patents granted on any Developments, including those in foreign countries.

Absent an assignment of rights to an employee’s work-related inventions and other developments, the employer may not own what the employee creates. Or, at the very least, the employer may be subject to a costly and bitter legal fight over ownership rights. (See Chapter 11.)

An assignment is simply a transfer of ownership. An employee may transfer his ownership rights in any copyrights, trade secrets, patentable inventions, or “mask works” (semiconductor chip designs) he creates on the employer’s behalf before

he actually commences work. This is when an assignment ideally should be made—before an employee begins his job. If an assignment is executed long after an employee is hired, the employer must give the continuing employee a raise or other compensation to ensure that the assignment is enforceable.

Postemployment Assignment

I will disclose to the Company any and all computer programs, inventions, improvements, or discoveries actually made, or copyright registration or patent applications filed, within [NUMBER OF MONTHS; SIX TO 12 IS RECOMMENDED] months after my employment with the Company ends. I hereby assign to the Company my entire right, title, and interest in such programs, inventions, improvements, and discoveries, whether made individually or jointly, which relate to the subject matter of my employment with the Company during the [NUMBER OF MONTHS; SIX TO 12 IS RECOMMENDED] -month period immediately preceding the termination of my employment.

Unfortunately, not all employees are honest when it comes to intellectual property rights. Some might try to steal materials they create that belong to their employer. Consider this scenario:

EXAMPLE: Josephine, a programmer employed by Miracle Systems, has signed an enforceable, reasonable assignment agreement. While employed by Miracle, she develops a potentially valuable program that should be assigned to Miracle under the terms of the agreement. However, Josephine conceals her new program from Miracle. She leaves Miracle and two months later registers her program with the Copyright Office, listing herself as the sole owner. Does Miracle have any ownership rights in the program? Maybe, if it can convince a court she developed it while employed by Miracle. But a lengthy and expensive court battle would be required.

To help avoid these types of shenanigans, many high-tech employers require inventive employees to agree to assign copyrightable or patentable works they create after the employment relationship ends. Such postemployment assignments are enforceable in most states if they are reasonable. To be reasonable, a post-employment assignment must:

- be for a limited time—probably no more than six months to one year after employment ends;
- apply only to works that relate to the inventor's former employment; and
- apply only to works actually in existence, not to mere ideas or concepts in the employee's brain.

Notice Pursuant to State Law

[ALTERNATIVE 1 (CALIFORNIA EMPLOYEES)] I understand that this Agreement does not apply to any invention that qualifies fully under the provisions of California Labor Code Section 2870, the text of which is attached as Exhibit A. This section shall serve as written notice to me as required by California Labor Code Section 2872.

[ALTERNATIVE 2 (ILLINOIS EMPLOYEES)] I understand that this Agreement does not apply to any invention that qualifies fully under the provisions of Illinois Revised Statutes, Chapter 140, Sections 302(1) and (2), the text of which is attached as Exhibit A. This section shall serve as written notice to me as required by Illinois Revised Statutes, Chapter 140, Section 302(3).

[ALTERNATIVE 3 (KANSAS EMPLOYEES)] I understand that this Agreement does not apply to any invention that qualifies fully under the provisions of Kansas Statutes Annotated Sections 44-130(a) and (b), the text of which is attached as Exhibit A. This section shall serve as written notice to me as required by Kansas Statutes Annotated Section 44-130(c).

[ALTERNATIVE 4 (MINNESOTA EMPLOYEES)] I understand that this Agreement does not apply to any invention that qualifies fully under the provisions of Minnesota Statutes Annotated Sections 181.78(1) and (2), the text of which is attached as Exhibit A. This section shall serve as written notice to me as required by Minnesota Statutes Annotated Section 181.78(3).

[ALTERNATIVE 5 (WASHINGTON STATE EMPLOYEES)] I understand that this Agreement does not apply to any invention that qualifies fully under the provisions of Washington Revised Code Annotated Section 49.44.140(1), the text of which is attached as Exhibit A. This section shall serve as written notice to me as required by Washington Revised Code Annotated Section 49.44.140(3).

A prospective or continuing employee and her employer are usually in an unequal bargaining position—the employer generally has the upper hand. Some high-tech employers have attempted to take advantage of their leverage by requiring their employees to agree to very broadly-worded assignments that purport to transfer to the employer in advance ownership of everything the employee creates, whether

related to the job or not. In the words of one court, these employers try to obtain “a mortgage on a man’s brain” (*Aspinwall Mfg. Co. v. Gill*, 32 F. 697 (3d Cir. 1887)).

To protect employees, several states, including California, impose restrictions on the permissible scope of assignments of employee-created inventions. Note that these restrictions apply only to “inventions” an employee creates—that is, software,

Internet business methods, or other items for which a patent is sought. The restrictions apply only to employees, not to independent contractors.

The California restrictions are typical. Under California law, an employee cannot be required to assign any of his rights in an invention he develops “entirely on his or her own time without using the employer’s equipment, supplies, facilities, or trade secret information” unless:

- when the invention was conceived or “reduced to practice” (actually created or a patent application filed) it related to the employer’s business or actual or “demonstrably anticipated” research or development; or
- the invention resulted from any work performed by the employee for the employer (California Labor Code, § 2870).

The following states impose similar restrictions:

- Delaware (Delaware Code Annotated, Title 19, § 805)
- Illinois (Illinois Compiled Statutes, Chapter 765, § 1060/2)
- Kansas (Kansas Statutes Annotated, Chapter 44, § 130)
- Minnesota (Minnesota Statutes Annotated, § 181.78)
- North Carolina (North Carolina General Statutes, §§ 66-57.1, 66-57.2)
- Utah (Utah Code Annotated, §§ 34-39-2, 34-39-3)
- Washington (Washington Revised Code Annotated, §§ 49.44.140, 49.44.150).

Invention Assignment Restrictions in Other States

Employers doing business in states that do not have laws restricting invention assignments like the eight states discussed above should nevertheless not attempt to impose unreasonable invention assignments on their employees. Even in the absence of a state law like California’s, a court could well refuse to enforce an assignment agreement that it deemed unreasonable—that is, that tried to obtain a “mortgage on a man’s brain.” Assignments complying with California law would probably be deemed reasonable in these states.

Here are examples that illustrate how these types of restrictions operate in practice.

EXAMPLE 1: Jim is a programmer employed by Orchid Development Co. Orchid is located in Northern California and is in the business of developing and marketing computer databases for business use. Before he began working for Orchid, Jim signed an employment agreement containing an invention assignment, complying with California law. An active computer game player, Jim creates a computer adventure game for children that uses revolutionary new methods to animate its characters in a very lifelike way. Portions of this program could well constitute a patentable invention.

Assume that Jim wrote his program at home, completely on his own time. Who owns Jim's invention, Orchid or Jim? Probably Jim. Since Orchid is not in the business of creating computer games, Jim's invention probably doesn't relate to its business or research and development; nor did Jim's game result from any work he performed for Orchid.

EXAMPLE 2: Assume the same facts as above. But what if Jim created his game during working hours? In this event, Orchid's invention assignment would probably be effective—that is, it would own any inventions contained in the game.

EXAMPLE 3: Again, assume the same facts. What if Jim created the game at home, but his new animation method was a spin-off from work he performed for Orchid? Orchid's invention assignment would probably be effective because Jim's invention resulted from work he performed for Orchid.

If the employee will work in California, Illinois, Kansas, Minnesota, or Washington State, state law requires that the employee be given written notice of state law restrictions on an employer's right to obtain an assignment of employee inventions. If this is not done, the assignment might be unenforceable. If the employee will work in any other state, delete this entire clause.

Otherwise, include the appropriate state notice on the disk that states that an Exhibit A is attached, which sets forth written notice of state assignment restrictions. The applicable Exhibit A, setting forth the text of the state law, must also be attached to the agreement. (This is covered below.)

Execution of Documents

Both while employed by the Company and afterwards, I agree to execute and aid in the preparation of any papers that the Company may consider necessary or helpful to obtain or maintain any patents, copyrights, trademarks, or other proprietary rights at no charge to the Company, but at its expense.

If the Company is unable to secure my signature on any document necessary to obtain or maintain any patent, copyright, trademark, or other proprietary rights, whether due to my mental or physical capacity or any other cause, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agents and attorneys-in-fact to execute and file such documents and do all other lawfully permitted acts to further the prosecution, issuance, and enforcement of patents, copyrights, and other proprietary rights with the same force and effect as if executed by me.

This clause simply requires the employee to execute any documents necessary to effect the assignment of intellectual property rights. If the employee is unable to do so because of sickness or for any reason, the company is appointed the employee's attorney-in-fact and may execute such documents on the employee's behalf.

Prior Developments

As a matter of record, I have identified all prior developments [IF MANY, ADD: "relevant to the subject matter of my employment by the Company"] ("Prior Developments") that have been conceived or reduced to practice or learned by me, alone or jointly with others, before my employment with the Company, which I desire to remove from the operation of this Agreement. The Prior Developments consist of: {LIST ALL PRIOR DEVELOPMENTS OR "None."}

I represent and warrant that this list is complete. If there is no such list, I represent that I have made no such Prior Developments at the time of signing this Agreement.

Unless the parties desire otherwise, the Agreement's assignment of intellectual property rights should not cover software, patents and other materials created and owned by the employee before commencing employment with the company. Since the employee wasn't working for the company when such items were created, the company shouldn't own them. This provision makes this clear and requires the employee to list all such prior developments.

Conflict of Interest

During my employment by the Company, I will not engage in any business activity competitive with the Company's business activities. Nor will I engage in any other activities that conflict with the Company's best interests.

This clause is intended to make clear to the employee that he shouldn't compete with the company while employed by it or engage in any activity that may harm the company.

Postemployment Noncompetition Agreement

[THIS "POST-EMPLOYMENT NONCOMPETITION AGREEMENT" CLAUSE CANNOT BE USED IN ALABAMA, CALIFORNIA, COLORADO, HAWAII, LOUISIANA, MONTANA, NEVADA, NORTH CAROLINA, NORTH DAKOTA, OKLAHOMA, OREGON, SOUTH DAKOTA, OR WISCONSIN. IN ALL OTHER STATES, THIS CLAUSE IS OPTIONAL.]

[ALTERNATIVE 1] I understand that during my employment by the Company I may become familiar with confidential information of the Company. Therefore, it is possible that I could gravely harm the Company if I worked for a competitor. Accordingly, I agree for [TIME PERIOD, USUALLY SIX MONTHS TO TWO YEARS] following the end of my employment with the Company not to compete, directly or indirectly, with the Company in any of its business. Competition includes the design, development, production, promotion, or sale of products or services competitive with those of the Company.

[ALTERNATIVE 2] I understand that during my employment by the Company I may become familiar with confidential information of the Company. Therefore, it is possible that I could gravely harm the Company if I worked for a competitor. Accordingly, I agree for [TIME PERIOD, USUALLY SIX MONTHS TO TWO YEARS] following the end of my employment with the Company not to compete, directly or indirectly, with the Company in any of its business if the duties of such competitive employment inherently require that I use or disclose any of the Company's confidential information. Competition includes the design, development, production, promotion, or sale of products or services competitive with those of the Company.

[ALTERNATIVE 3] I understand that during my employment by the Company I may become familiar with confidential information of the Company. Therefore, it is possible that I could cause grave harm to the Company if I worked for a competitor. Accordingly, I agree for [TIME PERIOD, USUALLY SIX MONTHS TO TWO YEARS] after the end of my employment with the company not to engage in, or contribute my knowledge to, any work that is competitive with or functionally similar to a product, process, apparatus, or service on which I worked while at the Company at any time during the period of [TIME PERIOD, USUALLY SIX MONTHS TO TWO YEARS] immediately before my employment ended.

(a) Diversion of Company Business: For a period of [TIME PERIOD, USUALLY SIX MONTHS TO TWO YEARS] months from the date my employment ends, I will not divert or attempt to divert from the Company any business the Company enjoyed or solicited from its customers during the [NUMBER OF MONTHS, USUALLY SIX TO 12] months prior to the termination of my employment.

(b) Geographic Restrictions: I acknowledge and agree that the software developed by the Company is, or is intended to be, distributed to customers nationally throughout the United States. According, I agree that these restrictions on my postemployment competitive activity shall apply throughout the entire United States.

A postemployment noncompetition agreement (also called a “covenant not to compete” or “noncompete clause”) is designed to discourage a former employee

from competing for a given period of time in the market in which the employer does business.

Alternatives to Noncompetition Restrictions

To put it mildly, noncompetition clauses are not popular with employees. Some potential (or continuing) employees will simply refuse to sign them. There are other, less drastic ways, to accomplish the same goals:

- *Deferred compensation:* Instead of forcing employees to sign an agreement with a noncompetition clause, many high-tech companies give their employees stock options, pension benefits, or other benefits that fully vest only after several years of employment. This gives the employee a strong financial incentive to stay.
- *Employment contracts for a definite term:* Normally, employment is “at will”—meaning the employer can fire the employee for any reason or no reason at all. Likewise, the employee can quit at any time. However, this can be changed by either a written or oral

contract. One way a developer can help assure a key employee will stay with the company is to have her sign an employment contract guaranteeing employment for a definite term—say two or three years. This means the employer can’t fire the employee during that time and the employee can’t quit. If she does, the employer can sue for breach of contract.

These types of agreements are common in some businesses, for example, the entertainment industry and professional sports; but they can have a real down side. If the employee doesn’t work out, keeping her on can be a horrible burden for the company. Moreover, if an employee really wants to be somewhere else, the quality of her work will inevitably suffer. Obviously, both parties need to consider carefully before making such a long-term commitment.

States where postemployment noncompetition clauses are unenforceable or restricted

Noncompetition agreements can make it impossible for ex-employees to earn a living in their chosen line of work—a fundamental right. For this reason, some states will not enforce noncompetition agreements with employees or restrict how they may be used.

Summary of State Laws Affecting Noncompete Agreements

State	Code Section
Alabama	Ala. Code § 8-1-1
California	Cal. Bus. & Prof. Code §§ 16600–16602
Colorado	Colo. Rev. Stat. § 8-2-113
Florida	Fla. Stat. Ann. §§ 542.33; 542.335
Louisiana	La. Rev. Stat. Ann. § 23.921
Montana	Mont. Rev. Code Ann. § 28-2-703
Nevada	Nev. Rev. Stat. Ann. § 613.200
North Dakota	N.D. Cent. Code § 9-08-66
Oklahoma	Okl. Stat. Tit. 15, §§ 217–219
Oregon	Or. Rev. Stat. § 653.295
South Dakota	S.D. Codified Laws Ann. §§ 53-9-8 to -11
Texas	Tex. Bus. & Com. Code Ann. §§ 15.03, 15.05

Alabama

Alabama prohibits noncompetition agreements that prevent employees from “exercising a lawful profession, trade, or business of any kind.”

California

California refuses to enforce noncompete agreements between employers and employees. Employers in California should not use such agreements. To protect trade secrets, rely on nondisclosure agreements, which are enforceable in California.

Colorado

Colorado prohibits anyone except “executive and management personnel and officers,” as well as “employees who constitute professional staff to executive and management personnel,” from entering into noncompete agreements with their employers. An employer in Colorado can enter into a noncompete agreement with any employee as long as the agreement provides only for the recovery of educational and training expenses if the employee violates the agreement. This recovery will be awarded only if the employee works for the employer for less than two years before switching to a competitor.

Florida

Florida law provides that a noncompete agreement can be used only to protect:

- trade secrets or valuable, confidential business or professional information;

- relationships with specific prospective or existing customers, patients, or clients; or
- extraordinary or specialized training.

The law also imposes time limits on such agreements. A noncompete agreement with a duration of six months to two years is assumed to be reasonable and enforceable. However, a noncompete agreement written to protect trade secrets can last up to five years.

Montana, North Dakota, and Oklahoma

These states have statutes that appear to prohibit employee noncompete agreements. However, some courts in these states have indicated that, despite what the law says, noncompete agreements might be enforceable against employees if they are reasonable and necessary to prevent a former employee from disclosing trade secrets to a competitor. If you are located in one of these states, seek the help of an attorney to create an enforceable noncompetition agreement.

Oregon

Noncompete agreements are enforceable in Oregon if they:

- are entered into when employees are hired or promoted; or
- qualify as a “bonus restriction agreement,” in which case they can be entered into at any time during employment.

A bonus restriction agreement forces an employee to forfeit any profit-sharing or bonus compensation if the employee

competes against the employer after the employee leaves the company. Consult an Oregon attorney if you want to make this type of agreement.

South Dakota and Louisiana

South Dakota and Louisiana statutes allow noncompete agreements, but don't allow the agreements to last more than two years after an employee leaves the company.

Texas

Noncompetition agreements are usually enforceable against employees in Texas provided that the employer gives the employee a benefit in addition to the job itself as compensation for signing the noncompete agreement. The standards for such benefits are low—for example, granting the employee a 14-day notice period before the employee is terminated.

Why use postemployment noncompetition clauses?

From an employer's point of view, a noncompetition clause in an employment agreement can serve several highly useful functions:

- By making it difficult, if not impossible, for a key employee to leave the company, it helps ensure that the employer will receive full return on its investment in training the employee.
- It may help an employer maintain a competitive advantage by preventing key employees from working for—and thereby aiding—competitors.

- It can help keep the employer's valuable trade secrets out of the hands of competitors.
- Indeed, where enforceable, noncompetition clauses are far more effective in protecting trade secrets than nondisclosure clauses. It can be very difficult for an employer to know whether an ex-employee has disclosed trade secrets to a competitor. Moreover, even if the employer is sure trade secrets have been disclosed, it can be difficult to obtain court relief for violations of a nondisclosure clause. The ex-employer must prove that the employee actually disclosed confidential information or that there is an imminent threat of such an unauthorized disclosure. This can be an onerous task, especially where the ex-employee claims that the information allegedly disclosed didn't qualify as a trade secret.

These problems do not exist with noncompetition clauses. It's usually easy to discover whether an ex-employee has gone to work for a competitor. To enforce a noncompetition clause in court, the ex-employer need only show that the ex-employee went to work for a competitor in violation of the clause's terms.

The best part about a noncompetition clause from an employer's point of view is that it will deter both the employee from seeking employment with a competitor and the competitor from hiring her. This significantly reduces an employee's incentive and opportunity to divulge trade secrets.

Of course, noncompetition clauses can make it impossible for an employee to earn a living in her chosen line of work if she leaves her job. The right to earn a living is considered to be one of the most fundamental rights a person has. For this reason, courts generally look on such clauses with disfavor and will only enforce them if the terms are reasonable and enforcement serves a legitimate interest of the employer.

When to use postemployment noncompetition clauses

Don't try to use a postemployment noncompetition clause simply to chain an employee to his job or obtain an unfair advantage over your competitors. A noncompetition clause should be used only in states where it's allowed, when there is a legitimate business need for it. For example:

- **Protection of trade secrets.** An employer has a legitimate interest in preventing its trade secrets from being disclosed to competitors. Thus, a noncompetition clause may be called for where the employee has access to trade secrets.
- **Return on substantial investment in an employee.** Where an employer spends substantial time and money giving an employee special training, it has a legitimate interest in obtaining a fair return on its investment. Thus, an employer may legitimately insist that an employee sign an agreement with a noncompetition clause before making such an investment in him.

- **Key employees.** Particularly in the software industry, where highly valuable programs are often created by a few extremely talented individuals, an employer may have a legitimate interest in preventing employees with special, unique, or extraordinary skills from working for competitors.

Reasonableness requirement

To be enforceable in the states that permit them, noncompetition clauses must be reasonable. If such a clause is found to be unreasonable, courts in some states will refuse to enforce it at all; others will ignore the unreasonable provisions and apply what they deem to be reasonable restrictions.

To be reasonable, a noncompetition clause must be limited as to time, scope, and geographic region.

- **Time.** A noncompetition clause cannot last forever; it must have a definite time limit—the shorter the better. Such clauses typically last for no more than six months to two years. Some states have statutes that limit the time. In Louisiana and South Dakota, for example, noncompete agreements that last more than two years are presumed to be unreasonable. In New York, depending on the circumstances, restrictions from one to five years are considered reasonable. But even in states with mandated limits, courts can review and shorten noncompetition restrictions they deem unreasonable.

EXAMPLE: A federal court in New York ruled that a one-year restriction on competition by a former employee was unreasonable because, given the dynamic nature of the Internet advertising industry, the useful life of the employee's information was much shorter than a year (*EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299 (S.D. N.Y. 1999)).

- **Scope.** A noncompetition clause should be no more restrictive than necessary to accomplish the employer's legitimate objectives. The clause should define as specifically as possible exactly what types of activities the employee cannot perform for a competitor. Generally, these activities ought to be similar to those currently being performed by the employee.
- **Geography.** A noncompetition clause must specify the geographic region in which it applies. It should be limited to the geographic area in which the company does business or in which it has made definite plans to do business in the immediate future. Of course, most website and software developers market their work to customers throughout the United States, so their noncompetition clauses can apply to the entire country.

Sample noncompetition clause

The more limited a noncompetition clause is in scope and time, the more likely it will be deemed reasonable and therefore

enforceable in court. The clause provided here bars the employee from working for any other company if doing so would require the disclosure of the hiring firm's confidential information. It also prevents the employee from performing services for a competitor that are similar to his job duties for the hiring firm; this is so whether or not disclosure of confidential information would occur. You need to state how long the restrictions will last; six months to two years is the common time period.

Most Web development and software companies do business throughout the United States, so their noncompetition covenants should apply in every state as well. Section (a) of the clause makes this clear. However, if your business is restricted to one or a few states, delete this clause and add the following: "This noncompetition agreement shall apply in the following territory: ____." List the state or states where you do business.

Additional Postemployment Noncompetition Terms

[THIS ENTIRE "ADDITIONAL POSTEMPLOYMENT NONCOMPETITION TERMS" CLAUSE IS OPTIONAL AND MAY ONLY BE USED IN CONJUNCTION WITH "POSTEMPLOYMENT NONCOMPETITION AGREEMENT" ABOVE.]

The following postemployment noncompetition term(s) shall apply:

(a) **Written Consent:** I understand that I will be permitted to engage in the work or activity described in this Agreement if I provide the Company with clear and convincing written evidence, including assurances from my new employer and me, that the contribution of my knowledge to that work or activity will not cause me to disclose, base judgment upon, or use any of the Company's confidential information. The Company will furnish me a written consent to that effect if I provide the required written evidence. I agree not to engage in such work or activity until I receive such written consent from the Company.

(b) **Inability to Secure Employment:** If, solely as a result of this noncompetition agreement, I am unable to secure employment appropriate to my abilities and training, despite my diligent efforts to do so, the Company shall either: (1) release me from my noncompetition obligations to the extent necessary to allow me to obtain such employment, or (2) pay me a periodic amount equal to my monthly base pay at termination for the balance of the term of this noncompetition agreement.

If and while the Company elects to pay me the amounts described above, I promise to diligently pursue other employment opportunities consistent with my general skills and interests. I understand that the Company's obligation to make or continue the payments specified above will end upon my obtaining employment, and I will promptly give the Company written notice of such employment.

If you completed the Postemployment Noncompetition Agreement clause above, you have the option to add any or all of the following:

- **Written Consent.** This lets the employee off the hook if she can convince the company that no confidential information will be disclosed to the new employer. It will help make the noncompete clause appear reasonable to a judge. This would be most appropriate where the employee's new duties wouldn't tempt her to disclose the prior employer's trade secrets.
- **Inability to Secure Employment.** An excellent way for an employer to make a noncompetition clause appear reasonable in the eyes of a court is for the employer to agree to pay all or part of the ex-employee's salary if the employee is unable to find work because of the noncompetition clause. This can be expensive, but it may be worth it to prevent a key employee from working for the competition and possibly divulging trade secrets.

Nonsolicitation

[OPTIONAL "NONINTERFERENCE WITH COMPANY EMPLOYEES" CLAUSE]

While employed by the Company and for [TIME PERIOD, USUALLY SIX MONTHS TO TWO YEARS] afterwards, I will not:

- (a) employ, attempt to employ or solicit for employment by any other person or entity, any Company employees;
- (b) encourage any consultant, independent contractor or any other person or entity to end their relationship or stop doing business with Company, or help any person or entity do so or attempt to do so;
- (c) solicit or attempt to solicit or obtain business or trade from any of Company's current or prospective customers or clients or help any person or entity do so or attempt to do so; or
- (d) obtain or attempt to obtain any Confidential Information for any purpose whatsoever except as required by Company to enable Employee to perform his or her job duties.

It's pretty much impossible for an employee to quit and start a competitive business by himself. He needs help, and will usually try to find it among co-workers. Indeed, it has been a common occurrence in the high-tech field for groups of employees to leave a company to start a competitive company. This clause tries to

prevent this by barring the employee from persuading other employees to leave the company.

This simple provision can be almost as effective as a covenant not to compete, while not presenting the difficult enforcement problems that noncompetition restrictions do. (However, of course, this clause will not prevent an employee from joining an already established competitor.) This optional clause may be used in any state, including those that prohibit post-employment noncompetition clauses.

Enforcement

I agree that in the event of a breach or threatened breach of this Agreement, money damages would be an inadequate remedy and extremely difficult to measure. I agree, therefore, that the Company shall be entitled to an injunction to restrain me from such breach or threatened breach. Nothing in this Agreement shall be construed as preventing the Company from pursuing any remedy at law or in equity for any breach or threatened breach.

If the employee breaches, or threatens to breach the Agreement, this clause gives the employer the automatic right to an injunction to prevent such a breach. This clause does not preclude the employer's right to seek additional remedies.

General Provisions

The general provisions in this agreement are standard in many types of legal documents and are discussed in detail in Chapter 17.

Signatures

Although not absolutely necessary, it's a good idea to have the employee's signature witnessed by a company representative. This is intended to prevent the employee from later claiming her signature was forged.

Exhibit A

To protect employees, several states impose restrictions on the permissible scope of assignments of employee-created inventions. If the employee will work in California, Illinois, Kansas, Minnesota, or Washington State, include the appropriate notice of state law provided on the disk. Delete all state law notices that don't apply.

PART II. Employment Agreements From the Employee's Viewpoint

This section covers employment agreements from the employee's point of view. High-tech employees are commonly asked to sign various agreements either before or after they begin work. They may be told that these merely are "standard forms" that everyone signs. These forms may be quite lengthy and filled with difficult to

understand legalese. Before you sign any agreement, read it carefully and make sure you both understand it and are comfortable signing it.

Of course, the extent to which the employer will be willing to alter any of the provisions in an employment agreement depends largely on how badly it wants you as an employee. And, the extent to which you may be willing to demand significant changes depends on how much you want the job.

Be sure to ask any prospective employer if you will be required to sign an employment contract, and, if so, ask for a copy before you accept the job. You don't want to be presented with a harsh agreement after you've already started work. At this point, having quit your old job, you may feel you have no choice but to sign it as written; or, at the very least, you will be in a much worse bargaining position than you were before accepting the new job.

Following are some of the key items you should look for when reviewing an employment agreement:

- confidentiality of trade secrets
- intellectual property ownership rights, and
- postemployment noncompetition restrictions.

Confidentiality of Trade Secrets

The agreement may contain a clause requiring you to keep the company's trade secrets confidential. There is nothing to object to here. Even without such a clause,

you have a legal duty not to disclose your employer's trade secrets if you're routinely exposed to them as a part of your job. (See Chapter 7 for a detailed discussion.) This duty applies not only to your new employer, but to all past employers as well. In other words, do not bring to your new job or disclose to your new employer your old employer's trade secrets.

Be Careful What You Take From Your Prior Employer

The best way to get your new employer and yourself involved in a trade secret suit is to take materials containing trade secrets belonging to your old employer when you leave for your new job. This includes not only documents but computer disks and even trade journal articles (you may have written valuable notes on these that belong to your old employer). The wisest policy is to ask your old employer's permission before taking any document, disk, or other item that could conceivably contain the employer's trade secrets. It's best to get such permission in writing.

Intellectual Property Ownership

If the employer knows what it is doing, the agreement should contain a provision by which you transfer your intellectual property ownership rights in copyrightable

materials you create as part of your job duties. This is perfectly reasonable and unobjectionable. However, if you and your new employer are going to share ownership of any of your work product, make sure that the employment agreement (or perhaps another side agreement) spells out exactly what you've agreed to. The discussion of ownership of custom software in Chapter 17 should be useful here as well. It discusses the various ways a developer and customer can parcel out ownership rights. Rights in employee-created software or Web materials can be handled in the same way.

Employee-Owned Materials

If you own any development tools (for example, code you've created and used in all your software), patents, or other valuable materials, and you want these items to remain your sole property, the agreement should make clear that your employer is not acquiring any ownership rights in them. Following is a sample clause for this; you'll need to type it yourself.

The following Developments [if many, add: "relevant to the subject matter of my employment by the Company"] have been conceived or reduced to practice or learned by me, alone or jointly with others, before my employment with the Company and I desire that they be removed from the operation of this Agreement: [list all employee-owned materials].

Work Outside the Scope of Employment

You need to be very careful if you intend to create potentially valuable products on your own time. An employer owns the intellectual property rights in works created by an employee within the scope of employment. Moreover, an employer may even have certain rights over works created outside the scope of employment if the employee used the employer's resources—for example, did a substantial amount of the work during business hours or used the employer's equipment. If an employee creates a valuable work on her own time, an unscrupulous employer might try to assert ownership over it by claiming that the work was within the scope of employment or the employee used its resources.

To avoid potential problems, if you plan to do work on your own, make sure you inform your new employer and obtain its written acknowledgment that it has no ownership interest in such work. (See Chapter 11 for sample form.)

Postemployment Invention Assignments

Some employers seek to include a provision by which the employee agrees to assign to the employer copyrightable or patentable work the employee creates after the employment relationship ends. Such postemployment assignments are enforceable only if they are reasonable.

From your point of view, a postemployment assignment provision is just as undesirable as a noncompetition clause. It can make it very difficult for you to get a new job, because your new employer may not be entitled to own anything you create during the period of the assignment provision.

Try to avoid signing agreements containing such provisions, or at least seek to keep the length of the restriction as short as possible. Also, make sure the assignment applies only to works actually in existence, not to mere ideas or concepts in your brain.

Postemployment Restrictions on Competition

Postemployment restrictions on competition (also called “covenants not to compete”) are contractual provisions that attempt to prevent an employee from competing with the employer after the employment relationship ends. This is one area in which the interests of the employer and employee are diametrically opposed. Quite simply, you don’t want to have any restrictions on your right to work for others if you leave the company. However, the more valuable your skills, the more likely it is that your employer will want to prevent you from working for the competition.

Fortunately for employees, post-employment noncompetition restrictions are highly disfavored by the courts. Moreover, several states, including California, have laws making employee covenants not

to compete generally unenforceable. If you’re in a state that doesn’t have such a law, this doesn’t mean the employer may impose extremely harsh noncompetition restrictions on you. Covenants not to compete must be reasonable to be enforceable. A noncompetition clause that would prevent you from earning a living in your chosen occupation for a substantial time would likely be unenforceable in court.

If your prospective employer absolutely insists on having a noncompetition clause, at least try to limit it as much as possible.

Here are some pointers:

- **Time.** Seek to make the length of the restriction as short as possible. Try for six months or a year; anything over two years is probably unreasonable.
- **Scope.** Try to avoid promising not to work for any of the company’s competitors or for certain named competitors. Rather, agree not to help develop products or services competitive with or similar to products you actually worked on for the company.
- **Geography.** The noncompete clause should apply only to the geographic areas in which the company does business or has definite plans to do business when you terminate your employment. However, if the company distributes its products throughout the United States (as most do), a noncompete clause can apply to the entire country.