KEAN MILLER
FROM MAIN STREET TO WALL STREET
KEAN MILLER HAWTHORNE D'ARMOND McCOWAN & JARMAN LLP

BUSINESS NOTES
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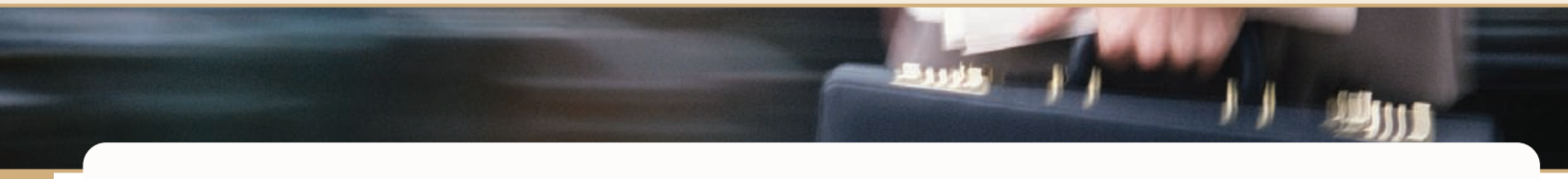

GREAT IDEAS BY EMPLOYEES – WHO OWNS THEM?

As we continue our shift to a more knowledge-based economy, frequently the greatest assets of a company reside in the creativity of its employees. This is especially true for service companies in which the services can be repeated for multiple customers (example: software). Whether or not a company owns something that has been created by one of its employees will depend to a great extent on the category of intellectual property into which the creation is classified. Generally, the creations or discoveries of employees will fall into the intellectual property categories of copyright, patent, or trade secret.

Copyright law states that an employer will own a work protected by copyright if the work was created within the employee's "scope of employment." In order to determine whether something is created within the scope of employment, one will look at the position description and the practical duties that the employee actually performed. For example, suppose Mr. Jones is a dispatcher for a custom fastener manufacturer. Mr. Jones creates an interface that vastly improves the software system the company uses for taking and fulfilling orders. He is a dispatcher, focused on delivery of orders. Nevertheless, improvements to the overall system of taking and delivering orders will be part of his duties. Therefore, it is likely that such a creation will be found to be within the scope of employment and the property of the employer.

The legal standard used in determining whether a company owns a patentable invention is narrower than the "scope of employment" standard used in copyright law. For patentable inventions, the courts look to whether the employee had a "duty to invent." We return to the above example of Mr. Jones, the dispatcher. Suppose the creation by the dispatcher was capable of patent protection. Because Mr. Jones was a dispatcher, who did not have a specific duty to invent, it is likely the company would not own any patent that might be issued to cover the invention.

For trade secrets, the law is less clear than the law for copyright and patent. Generally, trade secret law states that a trade secret will exist if the underlying information has value by not being generally known and is the

subject of reasonable measures to keep it secret. Trade secrets are normally the property of the company, and not the individual employees. However, as a practical matter trade secrets are harder to control than patents or copyrights. If an employee maintains a list of customer contacts on her personal cell phone, and the employer does not have a specific policy stating that customer contacts are the property of the employer; it will be difficult for the employer to assert that the contact information is a company trade secret when that employee leaves the company. Companies should use their information technology management practices to bolster the company's trade secret practices. For example, if the sales person above had been provided a company Blackberry, and if the system ensured that all contact information was stored on company servers; the company would have a stronger basis for arguing that the customer contact information is a trade secret. The company would be in an even stronger position if it had a written policy regarding the company's trade secret practices. Additionally, trade secret obligations should be included in employment agreements as well.

Employment agreements can also be used to clarify the company's ownership of copyrights and patents. The company can make clear that the "scope of employment" for copyrights is considered very broad. Also, the company could impose a duty to invent on all employees. Additionally, the employee agreement can clearly state, under a simple contractual basis, that all inventions or works of authorship created by employees are owned by the company.

A company can properly protect and claim ownership over the creations of its employees. Doing so requires a knowledge of the different areas of the law that apply and appropriate company practices. Those practices should take advantage of the applicable law and should fill in the gaps where the law does not adequately address the situation.

Russel O. Primeaux
225.3872.3454
russel.primeaux@KeanMiller.com

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