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Intellectual Property Rights

Gary Prato*

I. Introduction

“Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”¹ When Alexander Hamilton, Ben Franklin, James Madison, and the rest of the Founding Fathers were drafting the successor to the Articles of Confederation, they knew the importance of intellectual property ownership.² By the ratification of the Constitution the idea of a patent was far from novel; the first true patent is said to have been awarded in 1421 to Filippo Brunelleschi.³ It was not long after the United States created its national patent system that other countries started, after seeing the benefits, enacting their own national patent and copyright statutes.⁴ The logic behind a patent system quickly became apparent: if a nation wants to spur innovation, reward the individuals for doing so.

A patent is “[t]he governmental grant of a right, privilege, or authority.”⁵ To obtain ownership of an idea through a patent, an inventor must inform the public of his idea.⁶

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which

¹ U.S. CONST. art. 1, §8, cl. 8.

² *Id.*

³ *Six significant moments in patent history*, REUTERS (NOVEMBER 4, 2014, 3:47PM), <https://www.reuters.com/article/us-moments-patent/six-significant-moments-in-patent-history-idUSKBN0IN1Y120141104>.

⁴ *Id.*

⁵ Black’s Law Dictionary (10th ed. 2014).

⁶ *See* 35 U.S.C. §112 (2018).

it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor or joint inventor of carrying out the invention.⁷

Why allow any system that restricts the public from using technology? This concept of owning an invention or idea is the motivating spark that drives innovators to develop their ideas.

The recent history seems to show that technology and knowledge are important factors for economic growth and development. Since the creation of the first mechanism to protect inventions in 15th century, the patent system has evolved with a view to promote innovation and encouraging economic development. By offering exclusive rights for a limited period, an inventor may recover R&D costs and investments. It also promotes investment to commercialize and market new inventions so that the general public can enjoy the fruit of the innovation.⁸

In the United States, and most other countries, one must be the inventor to apply for a patent; “[a]n application for patent shall be made, or authorized to be made, by the inventor, except as otherwise provided in this title, in writing to the Director.”⁹ “The term “inventor” means the individual or, in the case of collaboration, the individuals collectively who invented or discovered the subject matter of the invention.”¹⁰ Like other forms of property, inventors are free to assign or license their rights to their intellectual property to others: “Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.”¹¹

The method of inventor assignment has been seized upon by employers and used to obtain their employees’ intellectual property rights in exchange for less than fair compensation. Employers in many technological fields routinely hire individuals for research positions with the intention of

⁷ *Id.*

⁸ WORLD INTELLECTUAL PROPERTY ORGANIZATION, *Economic Development and Patents*, <http://www.wipo.int/patent-law/en/developments/economic.html>.

⁹ 35 U.S.C. § 111(a)(1) (2018)

¹⁰ 35 U.S.C. § 100(f) (2018).

¹¹ 35 U.S.C. § 300 (2018).

developing their ideas into a patentable innovation. As will be described in detail in the next section, depending on the type of employment, the common law has developed principles to determine who owns the invention.¹² However, in order to obtain ownership over a wider breadth of intellectual property than the common law would otherwise allow, employers often include clauses in employment contracts that obligate employees to assign their intellectual property.¹³ Having little bargaining power when compared to the employer, the job applicant has little choice but to sign away her rights.

Some states have acknowledged that employees are at a severe disadvantage in negotiating employment contracts and that these “obligation to assign invention” clauses can be written so broadly to include more intellectual property than is fair and accordingly have enacted statutes limiting these clauses’ scope.¹⁴ Although these statutes improve the situation, they do not afford enough protection. The breadth of inventions that employers can require their employees to relinquish is far larger than what would be allowed at common law as implied by the relationship. In the 30 years since the enactment of the first statute in Minnesota, only a handful of other states have followed suit.¹⁵ The result is that it is rare for employees to have adequate protection in this country, even without considering the ability of employers to circumvent these statutes through choice of law clauses, a topic that will not be addressed in detail in this Comment. Going forward, a better balance must be found between protecting employers’ investments and expectations and employees’ rights to maintain rightful ownership of their intellectual property.

¹² See *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933).

¹³ See generally *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969 (N.D. Cal. 2006).

¹⁴ Minn. Stat. § 181.78 (1977).

¹⁵ See *Id.*; See also Wash. Rev. Code. §§ 49.44.140-.150 (1979); Cal. Lab. Code § 2870 (1979); N.C. Gen Stat. Ann. § 66-57.1 (1981); Del. Code Ann. Tit. 19 § 805 (1984); 765 Ill. Comp. Stat. Ann. § 1060/2 (1984); Kan. Stat. Ann. § 44-130 (1986); Utah Code Ann. § 34-39-1 (1989); N.J. Stat. § 34-1B-265 (2018).

New Jersey is the latest state to enact legislation restricting employers' abilities to obtain ownership of their employees' inventions.¹⁶ The statute was drafted after the Minnesota model, but it differs markedly from other similar statutes. Although the enactment of these statute shows a trend in the right direction, more needs to be done to protect employees. Employees are typically in no position to bargain with their employers over their employment contracts. These are contracts of adhesion because, if an employee will not sign, the employer will find someone else who will. Therefore, states must step in and protect these individuals by maintaining the balance that was struck at common law. This system that was fair to employees and employers has since shifted to a system that harms employees by depriving them of their intellectual property and the larger public by stifling competition in the marketplace.

This Comment will examine the current state of the law concerning employment contract assigning intellectual property from employees. Part II will analyze how the common law has dealt with the allocation of intellectual property rights between employers and employees absent a contractual agreement. Part III will analyze state statutes enacted concerning this issue, the differences between them, and their effects. Part IV will analyze New Jersey common law concerning intellectual property, the new state statute and how it differs from other statutes with similar goals.

As will be clear, states have left this area of employment law largely unchecked, rendering employees' technical and creative rights subject to the mercy of employers. Allowing employers to acquire such a large breadth of ownership of intellectual property from their workforces not only hurts the employee, but also stifles innovation and competition in the marketplace hurting the public at large.

¹⁶ N.J. Stat. § 34-1B-265.

II. Intellectual Property Rights Between Employees and Employers at Common Law

The default rule of patent ownership is that the inventor is presumed to be the owner of the patent.

¹⁷ In addition to being codified, the presumption that the inventors listed on an application are the owners of the patent has been largely followed by the courts.¹⁸ However, a noninventor can rebut this presumption by showing a valid executed assignment or contractual obligation to assign the invention.¹⁹

Absent an executed assignment or a contract to do so, the employee-employer relationship may not implicitly create a duty to provide an employer with a non-exclusive license or actual assignment of inventive rights to that employer in certain situations, depending on the type of employment.²⁰

Common law has recognized three types of employment in this regard: specific invent, general invent, and non-invent employment.²¹ With respect to specific invent employment,²² it has been said that “[o]ne employed to make an invention, who succeeds, during the term of service, in accomplishing that task, is bound to assign to his employer any patent obtained. The reason is that he has only produced that which he was employed to invent. His invention is the precise subject of the contract of employment.”²³ As described by Justice Roberts in this statement, “specific invent” employment creates an implied obligation for the employee to assign her

¹⁷ The original applicant is presumed to be the owner of an application for an original patent, and any patent that may issue therefrom, unless there is an assignment. 37 CFR 3.73(a) (2018).

¹⁸ See *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456, 1460 (Fed. Cir. 1998); See also *Intercept Pharm. v. Fiorucci*, 277 F. Supp. 3d 678, 684 (D. Del. 2017); *StemCells, Inc. v. Neuralstem, Inc.*, 115 F. Supp. 3d 623, 639 (D. Md. 2015)

¹⁹ 35 U.S.C. § 111(a)(1) (2018)

²⁰ See Robert L. Gullette, *State Legislation Governing Ownership Rights on Inventions under Employee Invention Agreements*, 62 J. PAT. OFF. SOC’Y 732, 733 (1980); See also 8 Chisum on Patents § 22.03.

²¹ Gullette, *supra* note 20, at 733; See also Chisum *supra* note 20, § 22.03.

²² Gullette, *supra* note 20, at 733; See also Chisum *supra* note 20, § 22.03.

²³ *Dubilier*, 289 U.S. at 185.

inventive rights to her employer.²⁴ The specific employment rule is one of fairness: the employer has hired the individual with a specific task or invention in mind and it would be inequitable to deprive the employer of an invention that it conceived. An example of this type of employment is a research scientist specifically hired to develop a new ACE inhibitor based on a structure that the employer predicted to be a viable drug. The employer has done the preliminary research and development; it just requires someone to synthesize the compound. It is easy to see how, in equity, the employer deserves to own this intellectual property, and therefore the law assigns the employer the patent.²⁵

The second category is “general invent” employment. “[I]f the employment be general, albeit it cover a field of labor and effort in the performance of which the employee conceived the invention for which he obtained a patent, the contract is not so broadly construed as to require an assignment of the patent.”²⁶ An invention is falls under general invent employment if the inventor was not specifically hired to create that innovation, but nonetheless invents or improves something while using his employer’s resources. The employee is allowed to maintain the rights to her patent, but, in equity, if she used her employer’s time or resources in creating the invention, the employer is allowed a non-transferable license called a “shop-right.”²⁷ This gives the employer the right to practice the invention without payment of royalties but does not allow it to license or sell rights to others. Unless there is an agreement to the contrary, an employer does not have broader rights to

²⁴ *Id.*

²⁵ It should be noted that the employee in this situation would have difficulty convincing the United States Patent and Trademark Office (USPTO) that she should be considered an inventor. she did not conceive the invention, but merely helped reduce it to practice.

²⁶ *Id.* at 186.

²⁷ *Id.*, 289 U.S. at 186. (A shop-right is a non-exclusive non-transferable license given to the employer. “Recognition of the nature of the act of invention also defines the limits of the so-called shop-right, which shortly stated, is that where a servant, during his hours of employment, working with his master's materials and appliances, conceives and perfects an invention for which he obtains a patent, he must accord his master a non-exclusive right to practice the invention.” *Id.* The employer cannot prevent the employee from selling the innovation to his competitors, but they are not required to pay any compensation or royalties to the employee for use of the idea.)

an invention which is the original conception of the employee alone.²⁸ An example of this type of employment is an engineer hired to maintain a piece of factory machinery. The engineer's duties are to repair the machine and prevent equipment failure. During his job, the engineer conceives an invention that would allow the machinery to run at a higher efficiency and break down less frequently. The engineer develops the idea independently but uses his employer's resources to perfect the invention. The employer did not expect this innovation to occur; it happened purely because the employee took the initiative to develop it. In this situation the innovation was outside the employee's duties, so the inventive rights properly belong to him; but the inventor still used the employer's resources, so it deserves some type of compensation. This is provided by a non-exclusive non-transferable license given to the employer called a "shop-right."

Lastly, there is the "non-invent" employment, which is an employee in a non-creative position, not expected to create protectable intellectual property, and uses no employer time and/or resources to develop his invention.²⁹ In this type of situation the inventor owns his rights to his innovation and the employer does not maintain any interests. An example of this type of employment is a gas station attendant who independently develops an improved fuel pump assembly at home, in his off hours. The employee was not hired to invent, did not use any of the employer's resources or time to invent, and was not expected to invent anything. It would be inequitable to force an assignment of this invention to the employer or even provide them with any "shop-rights."

Dubilier is one of the leading cases for these common law rules.³⁰ Francis W. Dunmore and Percival D. Lowell were employed by the Bureau of Standards (The Bureau), a subdivision of

²⁸ *Bd. of Trs. Of the Leland Stanford Junior Univ. v. Roche Molecular Sys.*, 563 U.S. 776, 786 (2011).

²⁹ See Gullette, *supra* note 20, at 733; See also Chisum *supra* note 20, § 22.03.

³⁰ 289 U.S. 178.

the Department of Commerce.³¹ Both were in the radio section of the Bureau and assigned to research and test advances in “airplane radio” technology.³² The Army Air Corps agreed to allow The Bureau to research 44 of its projects.³³ In 1921, Dunmore chose one of these projects on his own initiative and without instruction from his superiors to do so.³⁴ By the following September, Dunmore had finished the project³⁵ but also during this time he conceived and reduced to practice another invention from a separate project on which he was independently working³⁶ In the Fall of 1921, Dunmore and Lowell were independently working on an issue of applying alternating current to broadcast receiving sets.³⁷ This project was not assigned by a superior and not related to their assigned duties at the Bureau.³⁸ The invention was completed by December of that year.³⁹ There was no employment agreement obligating the two to assign their invention.

The United States Government sued Dunmore and Lowell in the United States District Court for the District of Delaware seeking a declaration that the Government had exclusive and sole ownership of the inventions or that they had been dedicated to the public.⁴⁰ The district court dismissed the suits and the United States Court of Appeals for the Third Circuit affirmed.⁴¹ The Supreme Court, in affirming the District Court’s judgment, declared the common law default regime regarding the rights of employers to acquire its employees’ property.⁴² As we have seen, Justice Roberts affirmed that, if an employee is employed for the specific purpose of making an

³¹ *Id.* at 182.

³² *Id.*

³³ *Id.*

³⁴ *Id.*

³⁵ *Dubilier*, 289 U.S. at 182.

³⁶ *Id.*

³⁷ *Id.*

³⁸ *Id.* at 185.

³⁹ *Id.*

⁴⁰ *Id.* at 186

⁴¹ *Dubilier*, 289 U.S. at 186.

⁴² *Id.* at 185–87

invention and succeeds, that invention must be assigned to the employer.⁴³ In contrast, if that employee is hired to take charge of the company's works and happens to make improvements to the technology, the employee maintains ownership of his invention absent an agreement to the contrary.⁴⁴ However, if the employee used his employer's time and/or resources to create the invention, that employer is given a non-exclusive right to practice that invention.⁴⁵ Lastly, if an employee independently creates the invention, with no involvement from the employer, "the employer has no equity to demand a conveyance of the invention."⁴⁶ In declaring that respondents maintained ownership of their patents, Justice Roberts declared, "[T]he Government understood that respondent could be deprived of rights under the patents only by proof that [Respondents] were employed to devise the inventions."⁴⁷

In short, the common law favors the employee maintaining ownership of the invention, but there are times in which it is clear that, in fairness and equity, some rights belongs to the employer, and courts will not deprive them of what is rightfully theirs.⁴⁸ An example is a case regarding rightful ownership of employment inventions involving Joseph DeStefano, Joseph Kirkland, and Timothy Langlois (Defendants), who were formerly employed by Agilent Technologies, Inc. in various research and supervisory positions in Agilent's High-Performance Liquid Chromatography (HPLC) division.⁴⁹ Defendants had all signed and employment contracts, which contained confidentiality agreements and obligation to assign invention agreements, that required

⁴³ *Id.* at 185.

⁴⁴ *Id.* at 187.

⁴⁵ *Id.*

⁴⁶ *Dubilier*, 289 U.S. at 187. (In this statement Justice Roberts is succinctly describing an example of non-invent employment).

⁴⁷ *Id.*

⁴⁸ See generally *Agilent Techs. v. Kirkland*, 2010 Del. Ch. Lexis 34*.

⁴⁹ *Id.* at *3-7. Although the defendants were found to have violated their assignment agreement, the result would have been the same without a contract because the court found that they misappropriated trade secrets and left with Agilent information without permission.

the return of all property of Agilent upon their termination of employment and assign intellectual property conceived while employed at Agilent.⁵⁰ Agilent took several steps to protect its confidential information like restricting access to confidential documents and limiting entrance to research and development sites.⁵¹ Upon termination, an exit interview was required to make sure that departing employees were not leaving with confidential information and were reminded of their agreements.⁵² All Defendants failed to honor this agreement and, when they left Agilent: each took documents containing sensitive information that belonged to Agilent.⁵³ Defendants started a competing business and used the knowledge that they obtained from Agilent to create competing HPLC technology that contractually should have been assigned to Agilent.⁵⁴

Agilent filed an action in the Court of Chancery of Delaware claiming, among other things, breach of the confidentiality agreement,⁵⁵ misappropriation of trade secrets and unfair business practices.⁵⁶ The Chancery Court found that Defendants removed Agilent's property without permission, they misappropriated trade secrets, and they failed to assign inventions and discoveries to Agilent.⁵⁷ The Court noted that "an employee may freely use knowledge that is in her field of work, even if that knowledge is acquired during her employment," but that was not the case here.⁵⁸ This information was not generally known in the field, but was Agilent's trade secrets.⁵⁹ In light of the facts that the technology resulted from the Defendants' misappropriation of trade secrets

⁵⁰ *Id.* at *10.

⁵¹ *Id.* at *11.

⁵² *Id.*

⁵³ *Id.* at *12–13

⁵⁴ *Kirkland*, 2010 Del. Ch. Lexis at *16–48.

⁵⁵ Under Agilent's employment contract all employees are required to relinquish all confidential information and assign all rights to technologies conceived during employment in the normal course of their work. *Id.* at *11

⁵⁶ *Id.* at *48–49

⁵⁷ *Id.* at *51–93.

⁵⁸ *Kirkland*, 2010 Del. Ch. Lexis at *55–56 (citing *SinoMab Bioscience Ltd. v. Immunomedics, Inc.* 2009 Del. Ch. LEXIS 106, 2009 WL 1707891, at *15 (Del. Ch. June 16, 2009) (Finding that a former employee has no obligation to assign an invention where it was generally known in his field)).

⁵⁹ *Id.* at *64

and the agreement in their employment contract, Judge Strine accordingly order the assignment of two patents as well as other relief.⁶⁰

It is only relatively recently that employers have attempted to undermine these general principles through the use of inequitable adhesion contracts that alter these well-established default rules.

III. State Statutes Enacted Concerning the Issues of Intellectual Property Rights in Employment Contracts

a. Inequities Resulting From Uneven Bargaining Powers

The freedom to contract is well established in American law. As long as the parties do not contract for something illegal or against public policy, an otherwise valid contract is enforced.⁶¹ Generally, covenants in employment contracts that require the employee to assign all rights to their intellectual property have been upheld.⁶² Employers, generally in a better position in employment contract negotiation, sought to protect their interests by drafting clauses requiring employees to assign inventions as broadly as possible.⁶³ Although, courts have placed limits on the scope of these clauses, the breadth of the agreements is farther reaching than the common law would permit absent an agreement reach further than what may be seen as fair.⁶⁴

⁶⁰ *Id.* at *125, *134.

⁶¹ See generally RESTATEMENT (SECOND) OF CONTRACTS: UNENFORCEABILITY ON GROUNDS OF PUBLIC POLICY §§ 178–199 (AM. LAW INST. 1981).

⁶² See *Ingersoll-Rand Co. v. Ciavatta*, 542 A.2d 879, 886 (N.J. 1988); See also *Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205, 214 (1st Cir. 1971); *Supra* Gullette.

⁶³ See Chisum, *supra* note 20, § 22.03.

⁶⁴ See *St. John's University v. Bolton*, 2010 U.S. Dist. LEXIS 136339 (E.D. N.Y. 2010) (stating, “public policy principles prohibit putting a ‘mortgage on a man’s brain,’” but ultimately holding that the university may maintain ownership over inventions derived from research performed while at the university). See also *Cadence Design Sys., Inc. v. Bhandari*, 2007 U.S. Dist. LEXIS 83078 (N.D. Cal. 2007) (Court construed “related to” phrase broadly in Cal. Lab. Code §2870 to force the assignment of patent rights from inventors to former employer when the former employer was not aware of the patented technology until the inventors told them); *Alzheimer’s Inst. of Am., Inc. v. Radiopharmaceuticals*, 2011 U.S. Dist. LEXIS 9802 (E.D. Pa. 2011) (Court found inventor was required to assign inventive rights to state university because of a Florida administrative regulation); *Cubic Corp. v. Marty*, 185 Cal. App. 3d 438 (Cal. Ct. App. 1986) (Court found that agreement forcing assignment of technology developed

b. State Statutes Enacted to Combat the Problem

Minnesota was the first state to enact legislation concerning this issue in 1977.⁶⁵ The statute in full reads can be found in Appendix A of this article. Since 1977, seven other states have enacted statutes, which are based on the model below and will be referenced as “Minnesota based” statutes.⁶⁶ Essentially the statutes have in common clauses stating that any provisions in an employment contract that force the assignment of employees’ intellectual property will be held invalid if it attempts to force the assignment of ideas created outside the scope of the employee’s work, not related to the employer’s industry, and without using employer’s time or resources.⁶⁷ Although there are some differences, these statutes largely mirror the Minnesota statute. For example, Washington’s statute almost completely mirrors the Minnesota statute, except for some small formatting differences.⁶⁸

Other states have varied the statutory language slightly in ways that may change judicial interpretations. For instance, in Kansas and North Carolina, the respective legislatures have added a provision explicitly placing the burden of proof on the employee seeking to avoid assignment.⁶⁹ California, North Carolina, Delaware, and Illinois have removed “directly” from their statutes, allowing for a possible broader interpretation of “relating to” the business of the employer; the removal of “directly” from these statutes has been construed by the courts to provide employers

independently of employer was valid under Cal. Lab. Code § 2870 because it was related to the employer’s business); *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969 (N.D. Cal. 2006) (Employer granted injunction enjoining inventor from practicing their inventions because inventor use employer resources to perfect their invention; this made the California labor statute inapplicable).

⁶⁵ Minn. Stat. § 181.78.

⁶⁶ Wash. Rev. Code. §§ 49.44.140-.150; Cal. Lab. Code § 2870; N.C. Gen Stat. Ann. § 66-57.1; Del. Code Ann. Tit. 19 § 805; 765 Ill. Comp. Stat. Ann. § 1060/2; Kan. Stat. Ann. § 44-130; N.J. Stat. § 34-1B-265.

⁶⁷ Minn. Stat. § 181.78.

⁶⁸ Wash. Rev. Code. §§ 49.44.140-.150.

⁶⁹ N.C. Gen Stat. Ann. § 66-57.1; Kan. Stat. Ann. § 44-130.

with the ability to acquire a much wider breadth of their employee's technology.⁷⁰ Illinois specifically notes that its statute does not preempt existing common law regarding shop-rights.⁷¹ Delaware, North Carolina, and California have removed the provision in the Minnesota statute requiring employers to inform employees that their obligation to assign invention provisions does not require the assignment of invention meeting the criteria in the respective statutes.⁷² California is unique in it is the only state that requires the invention to relate to the employer's business or anticipated research *at the time of conception or reduction*.⁷³ Lastly, the newly enacted New Jersey statute varies in other ways than the aforementioned statutes, and will be discussed in detail in Section V.

Two states have drafted unique statutes -- Utah and Nevada.⁷⁴ On initial examination of section one of Utah Code § 34-39-3, it seems to read similarly to the Minnesota based statutes, but it quickly becomes apparent that this code is less restrictive on employers than the other statutes.⁷⁵

⁷⁰ Cal. Lab. Code § 2870; N.C. Gen Stat. Ann. § 66-57.1; Del. Code Ann. Tit. 19 § 805; 765 Ill. Comp. Stat. Ann. § 1060/2; *See Cadence Design Sys., Inc. v. Bhandari*, 2007 U.S. Dist. LEXIS 83078 (N.D. Cal. 2007) (Court construed "related to" phrase broadly in Cal. Lab. Code §2870 to force the assignment of patent rights from inventors to former employer when the former employer was not aware of the patented technology until the inventors told them). **Subdivision 1.** Inventions not related to employment. — Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of the employee's rights in an invention to the employer shall not apply to an invention for which no equipment, supplies, facility or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (1) which does not relate (a) **directly** to the business of the employer or (b) to the employer's actual or demonstrably anticipated research or development, or (2) which does not result from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable. Minn. Stat. § 181.78 (Emphasis added).

⁷¹ Ill. Comp. Stat. Ann. § 1060/2.

⁷² Cal. Lab. Code § 2870; N.C. Gen Stat. Ann. § 66-57.1; Del. Code Ann. Tit. 19 § 805. **Subd. 3. Notice to employee.** — If an employment agreement entered into after August 1, 1977 contains a provision requiring the employee to assign or offer to assign any of the employee's rights in any invention to an employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention for which no equipment, supplies, facility or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (1) which does not relate (a) directly to the business of the employer or (b) to the employer's actual or demonstrably anticipated research or development, or (2) which does not result from any work performed by the employee for the employer. Minn. Stat. § 181.78.

⁷³ Cal. Lab. Code § 2870.

⁷⁴ Utah Code Ann. § 34-39-1–34-39-3; Nev. Rev. Stat. Ann. § 600.500 (2001).

⁷⁵ Utah Code Ann. § 34-39-1–34-39-3

§ 34-39-2 begins by introducing the term “employment invention” and what it includes.⁷⁶ This definition is arguably very broad and covers almost anything an employee invents during or after her employment.⁷⁷ Section 34-39-3 deals with the terms of employment contracts and their reach.⁷⁸ Employers are not allowed to enter agreements that require assignment of non-employment inventions, unless they are outside of an “employment agreement” or include consideration other than employment.⁷⁹ There is no mention on what is the difference between “employment” and “non-employment” agreements or what adequate consideration would be.⁸⁰

In 2001, Nevada decided to address this issue in a markedly different fashion by creating an implicit contract that provides all employers with the rights to their employees’ intellectual property, unless otherwise agreed:

Except as otherwise provided by express written agreement, an employer is the sole owner of any patentable invention or trade secret developed by his or her employee during the course and scope of the employment that relates directly to work performed during the course and scope of the employment.⁸¹

It can be said that this statute helps clear ambiguities created by the common law regarding employer intellectual property ownership, but in view of the reasons why many of the other statutes were created, it seems Nevada has decided the issue was with the employees not the employers.⁸²

⁷⁶ Utah Code Ann. § 34-39-2

⁷⁷ *Id.*

⁷⁸ Utah Code Ann. § 34-39-3

⁷⁹ *Id.*

⁸⁰ *Id.*

⁸¹ Nev. Rev. Stat. Ann. § 600.500.

⁸² *Id.*

c. Employment Statutes Concerning Specific Areas of Employment Inventions

i. Florida Statute That Created an Implied Contract Between all State Universities and Their Employees

These statutes seek to alter the allocation of intellectual property between employers and employees in general. Other efforts were implemented to control intellectual property in specific employment situations, like employment at a state university, or employment by the government.⁸³ Florida, sought to protect the intellectual property rights of its public universities, promulgated a regulation that required public university employees to disclose all inventions that an employee may develop or discover and assign those rights to the university if the invention was in the field of the employee's research or if that employee used university resources.⁸⁴ The regulation required that the employee "share in the proceeds" and allowed for the university to release their rights.⁸⁵ Similar to the Nevada statute, this regulation created an implied covenant between an employee and the university, unless otherwise agreed (released), but it affected only employees of public universities and required some kind of compensation for the employee.⁸⁶ The regulation was rescinded in 2011.⁸⁷

ii. The Bayh-Dole Act: Federal Government's Early Attempt to Spur Innovation Through Government Funding

The Bayh-Dole Act was a series of laws enacted by Congress in 1980, which sought to promote the use of inventions arising from federally funded research and to encourage maximum participation by businesses and universities in federally funded research and development.⁸⁸ Prior

⁸³ Fla. Admin. Code Ann. r. 6C4-10.012(3)(c) (1989) (repealed 2011); 35 U.S.C.S. § 200 (2018).

⁸⁴ Fla. Admin. Code Ann. r. 6C4-10.012(3)(c) (Repealed 2011).

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ 35 U.S.C.S. § 200 (2018).

to the act, federal research contracts often required inventors to assign their rights to their intellectual property to the federal government. The Bayh-Dole Act explicitly allows entities that qualified as either “small business” or “non-profit organizations” to elect to maintain their intellectual property rights.⁸⁹ Congress realized that inventors, universities, and other hubs for innovation were eschewing government funding for fear of losing the rights to their intellectual property. The Bayh-Dole Act was one of the federal government’s earliest attempts to protect intellectual property rights, even if it was from the government itself.

The Bayh-Dole Act was enacted to promote research and innovation by creating a structure that allowed researchers and those to whom they have assigned their rights to elect to retain ownership of the fruits of their labor, despite the fact that the research was funded by federal grants.⁹⁰ The following case exemplifies the Supreme Court’s unwillingness to allow a statute created to allow researchers to retain their inventive rights to be used for an entity to acquire those rights.

In 1988, Cetus, a small California research company, began to collaborate with researchers at Stanford University.⁹¹ Dr. Mark Holodniy joined Stanford and signed an employment agreement consenting to the assignment of his rights to inventions developed while employed to Stanford.⁹² Stanford then arranged for Holodniy to conduct research at Cetus and, as a condition, he was required to sign a visitor agreement assigning all rights to inventions and improvements made as a consequence of his access to Cetus.⁹³ Holodniy developed a HIV measurement technique, and Stanford obtained written assignments from all inventors involved.⁹⁴ In 1991,

⁸⁹ 35 U.S.C.S. § 200(a) (2018).

⁹⁰ *Id.*

⁹¹ *Bd. Of Trs. Of the Leland Stanford Junior Univ. v. Roche Molecular Sys.*, 562 U.S. 776, 780 (2011).

⁹² *Id.* at 781

⁹³ *Id.*

⁹⁴ *Id.*

Roche acquired portions of Cetus relevant to Holodniy's research and its related agreements.⁹⁵ Some of Stanford's research relevant to Holodniy's work was funded by National Institute of Health (NIH) grants.⁹⁶ Stanford disclosed the invention to NIH and provided a license to it, but also elected to retain ownership of the invention.⁹⁷ In 2005, Stanford filed suit against Roche, alleging that Roche's HIV testing kit infringed on Stanford's patents.⁹⁸ Roche countered alleging that Stanford had no right to sue because of the agreement Holodniy signed with Cetus.⁹⁹ Stanford responded by stating that the research was federally funded, and the Bayh-Dole Act gave the school superior rights to any that Cetus might otherwise have acquired.¹⁰⁰

The district court accepted Stanford's argument that, even though Holodniy attempted to assign his interest to Cetus, he had no rights to assign because of the Bayh-Dole Act.¹⁰¹ The appellate court disagreed and held that the Act did not supersede contract law.¹⁰² In affirming, the Supreme Court reasoned that one of the fundamental precepts of patent law is that an inventor is the original owner of her invention and it would be highly unusual for Congress to attempt to supplant this doctrine.¹⁰³ Furthermore, the Court read the provisions of the act allowing contractors the right to challenge the government-imposed impediment on retaining title to their invention as protecting parties' rights to inventions, not creating another avenue for the government to obtain ownership of their invention.¹⁰⁴ The court viewed the Cetus assignment as controlling and Roche was awarded ownership of the invention.¹⁰⁵ The Court held that the

⁹⁵ *Id.* at 782.

⁹⁶ *Stanford*, 562 U.S. at 783.

⁹⁷ *Id.*

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *Id.* at 783–84.

¹⁰² *Stanford*, 562 U.S. at 784.

¹⁰³ *Id.* at 792.

¹⁰⁴ *Id.* at 791

¹⁰⁵ *Id.* at 784

original pre-inventive assignment agreement to Stanford was a “mere promise to assign rights in the future” while the agreement later signed with Cetus was itself an assignment of Holodniy’s inventive rights to Cetus. Thus, the later signed agreement with Cetus overcame the previously signed agreement with Stanford.¹⁰⁶

d. Some Examples of Judicial Interpretation of State Statutes

Following the enactment of these employee inventorship statutes, issues arose as to how broad of subject matter an employer can claim. Below are a few cases involving this type of statutory interpretation that are quite notable.

A rare decision in employment intellectual property law was the “Bratz” case, where the courts very narrowly interpreted an employment contract to allow a designer to maintain his idea.¹⁰⁷ Carter Bryant was an employee of Mattel in its “Barbie Collectables” department.¹⁰⁸ Bryant was involved in the design of fashion and hair styles for high end Barbie Dolls.¹⁰⁹ While employed for Mattel, he developed the idea for Bratz dolls and pitched the idea to Mattel’s competitor MGA Entertainment.¹¹⁰ To create a model, Bryant used a doll head from a Mattel bin, a Barbie body, and Ken shoes.¹¹¹ MGA decided to develop the idea and hired Bryant as a consultant.¹¹² Mattel eventually found out about Bryant’s development of Bratz and sued for the rights to the line of dolls.¹¹³

The district court initially held that Bryant violated his employment agreement, which contained an obligation to assign invention clause, and ordered Bryant and MGA to relinquish the

¹⁰⁶ *Id.*

¹⁰⁷ See generally *Mattel, Inc. v. MCA Entm’t Inc.*, 616 F.3d 904, 907 (9th Cir. 2010) (The “Bratz” case).

¹⁰⁸ *Id.* at 907.

¹⁰⁹ *Id.*

¹¹⁰ *Id.*

¹¹¹ *Id.*

¹¹² *Id.*

¹¹³ *Mattel*, 616 F.3d at 908.

rights to the Bratz line to Mattel.¹¹⁴ Section 2870 of the California Labor Code applied to this contract and it declares any agreement to assign intellectual property created outside the scope of employment is against public policy and void.¹¹⁵ Bryant's assignment agreement with Mattel was quite extensive and covered inventions, patents, copyrights, discoveries, improvements, processes, developments, designs, know-how, data computer programs, and formulae.¹¹⁶ Still, the Ninth Circuit found the clause ambiguous as to whether it included "ideas."¹¹⁷

The Ninth Circuit held that the district court erred in finding the clause unambiguous and, because of this error, had failed to evaluate any extrinsic evidence.¹¹⁸ Furthermore, the court reasoned that, even absent the ambiguity, the constructive trust implemented by the district court must be vacated because MGA independently expanded the Bratz line.¹¹⁹ "The district court's imposition of a constructive trust forcing MGA to hand over its sweat equity was an abuse of discretion and must be vacated."¹²⁰ It also held that the district court erred by failing to properly instruct the jury as to whether Bryant's designs were outside the scope of his employment.¹²¹ This was not a dispositive issue; the court reasoned that, if it is found that Bryant never assigned his rights in the first place, this argument would be moot.¹²² The case was remanded to the lower court for a factual determination to decide if the "ambiguous" clause covered "ideas."

¹¹⁴ *Id.*

¹¹⁵ "Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either: (1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or (2) Result from any work performed by the employee for the employer." Cal. Lab. Code § 2870 (a).

¹¹⁶ *Id.* at 909.

¹¹⁷ *Id.*

¹¹⁸ *Id.* at 910.

¹¹⁹ *Id.* (The court was unwilling to allow Mattel to profit from the sweat of Bryant's brow, even if they did rightfully own the original conception).

¹²⁰ *Mattel*, 616 F.3d at 910.

¹²¹ *Id.* at 912.

¹²² *Mattel*, 616 F.3d at 912 n.6.

In another example, the court rejected the argument that state statutes enacted to protect employees from overreaching obligations to assign invention clauses in employee contracts can be used to imply an assignment obligation in the absence of an agreement.¹²³ In 1998, Thomas A. Wilkins worked for Zond Energy Systems as a technician and Wilkins was eventually promoted after obtaining a college degree to electrical engineer in 2008.¹²⁴ Zond was acquired by Enron Renewable Corporation in 1999, which was itself later acquired by General Electric.¹²⁵ In 1999 and 2000, Wilkins was assigned to work on a project known as Lake Benton II.¹²⁶ There was a dispute as to whether Wilkin’s employment agreement contained a clause forcing assignment of intellectual property and as to whether Wilkins was employed under “specific invent” employment.¹²⁷ GE eventually filed a patent for certain inventions and Wilkin’s name was left off the list of inventors; he had terminated his employment by this time.¹²⁸ It was determined Wilkins was an inventor and Wilkins, having not assigned his rights, licensed his invention to Mitsubishi.¹²⁹ GE initiated an action in district court seeking summary judgment as a matter of law that Wilkins is required to assign his interest in the patent to his former employer.¹³⁰

GE sought judgment as a matter of law, stating that California Labor Code § 2860 required Wilkins to assign his technology to GE, even absent an agreement to this effect because the invention was within the scope of the employer’s business.¹³¹ The court rejected this argument, stating that “California law and federal patent law have affirmatively ruled to the contrary . . .

¹²³ *GE v. Wilkins*, 2012 U.S. Dist. Lexis 124642 (E.D. Cal. Aug. 31, 2012).

¹²⁴ *Id.* at *9

¹²⁵ *Id.*

¹²⁶ *Id.*

¹²⁷ *Id.* at *10.

¹²⁸ *Wilkins*, 2012 U.S. Dist. Lexis 124642 at *15–18.

¹²⁹ *Id.* at *19 (The inventorship on the application was brought to the International Trade Commission (ITC) in another matter and the ITC held that Wilkins was an inventor on the patent).

¹³⁰ *Id.* at *20.

¹³¹ *Id.* at *28.

absent an express agreement . . . mere employment is sufficient to vest title to an employee's invention to the inventor."¹³² In the 42 years that the statute had been enacted, at the time of this case, no court has construed it to imply an obligation for an employee to assign inventive rights and this reading of the law is inconsistent with established California law.¹³³ The case was allowed to proceed for a factual determination about whether Wilkins had agreed to the assignment clause in the employment contract and/or whether Wilkins's employment could be classified as specific invent employment.¹³⁴

Although the last few examples may make it seem like courts tend to find in favor of the inventor, especially the Bratz case, courts generally find more inventions excluded from the statutes than included.¹³⁵ These statutes have protected some inventor rights, but there is still a large imbalance of power between employee and employer and these statutes do not do enough to protect employee inventors from losing their rights due to inequitable adhesion contract.

IV. New Jersey's Common Law, Its New Statute and How it Differs from Other Statutes

Before the enactment of New Jersey's statute concerning employment invention allocation, the state largely relied on the common law principles enumerated in section II.¹³⁶ Courts in New Jersey originally disfavored obligation to assign invention clauses, as they equated them to non-

¹³² *Id.* at *42.

¹³³ *Id.* at 40.

¹³⁴ *Id.* at 59–60.

¹³⁵ See *Cadence Design Sys., Inc. v. Bhandari*, 2007 U.S. Dist. LEXIS 83078 (N.D. Cal. 2007) (Court construed "related to" phrase broadly in Cal. Lab. Code §2870 to force the assignment of patent rights from inventors to former employer when the former employer was not aware of the patented technology until the inventors told them); See also *Alzheimer's Inst. of Am., Inc. v. Radiopharmaceuticals*, 2011 U.S. Dist. LEXIS 9802 (E.D. Pa. 2011) (Court found inventor was required to assign inventive rights to state university because of a Florida administrative regulation); *Cubic Corp. v. Marty*, 185 Cal. App. 3d 438 (Cal. Ct. App. 1986) (Court found that agreement forcing assignment of technology developed independently of employer was valid under Cal. Lab. Code § 2870 because it was related to the employer's business); *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969 (N.D. Cal. 2006) (Employer granted injunction enjoining inventor from practicing their inventions because inventor use employer resources to perfect their invention; this made the California labor statute inapplicable).

¹³⁶ See *Gullette*, *supra* note 20, at 733.

compete agreements.¹³⁷ Nonetheless, over time, New Jersey accepted freedom to contract and invalidated only clauses that were legally abhorrent, usually for violating public policy favoring completion.¹³⁸

In an early decision in 1910, New Jersey courts vindicated employee rights by declaring an inventive “holdover” clause invalid in *Consol. R. E. L. & E. Co. v. United States Light & Heating Co.*¹³⁹ A “holdover” clause is a clause in an employment contract that requires or restricts an employee’s actions after termination of their employment. Defendant inventors had developed new technology and improvements to existing technology concerning the operation of electric motor vehicles.¹⁴⁰ A total of sixteen patents were assigned to the Consolidated Railway Electric Lighting and Equipment Company (plaintiff company) for \$1,995,000.¹⁴¹ The contract pertaining to this assignment, which was signed by all parties involved, utilized the following language in an attempt to gain ownership not only of the existing inventions, but of all inventions that the defendant had yet to conceive: “all improvements and inventions made or to be made by them or either of them.”¹⁴² Plaintiff company alleged that after the initial assignment, defendant inventors developed improvements to existing technology, resulting in twelve patents, that under the original agreement, rightfully belong to it.¹⁴³ In response to the complaint ownership of these inventions, United States Light and Heating Company (defendant company) filed a demurrer claiming that the contract is “against public policy and inequitable as being in too general and unrestricted.”¹⁴⁴

¹³⁷ *Consol. R. E. L. & E. Co. v. United States Light & Heating Co.*, 78 A. 684 (N.J. Ch. 1910).

¹³⁸ *Id.* (New Jersey courts maintain the right to strike legally abhorrent clauses while allowing the rest of the contract. An act commonly referred to as “blue penciling” in the state.) *See Solari Industries, Inc. v. Malady*, 264 A.2d 53, 1970 N.J. LEXIS 175 (N.J. January 1, 1970).

¹³⁹ 78 A. at 684.

¹⁴⁰ *Id.*

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ *Consol. R. E. L. & E. Co.*, 78 A. at 684.

¹⁴⁴ *Id.* at 185.

Judge Emory of the New Jersey Court of Chancery looked to existing precedent in patent and contract law to decide this matter.¹⁴⁵ Upon review of the existing common law, he concluded that the contract was not only against public policy, but that its enforcement, would be inequitable.¹⁴⁶ The general rule set out by the court and existing common law in New Jersey was “the contract for the assignment of future inventions [can go] no further than a restraint fairly and reasonably necessary for the protection of the assignee, under all the circumstances of the case.”¹⁴⁷ This case was an early example of New Jersey’s aspiration to protect employee inventors and foster healthy competition. The holding in this case paved the way for future holdings against inequitable employer contracts.

Unfortunately, New Jersey abandoned its original restrictive approach to enforcing agreements to assign employee rights. When an otherwise valid agreement requires the assignment of inventions created during the employee’s tenure with the employer, New Jersey will now uphold contract law and typically order assignment. An example is *Saccomanno v. Honeywell Int’l, Inc.*¹⁴⁸. Robert Saccomanno was an electrical engineer employed by Honeywell and its predecessors for more than 25 years.¹⁴⁹ Upon employment, he signed an employment agreement containing an obligation to assign invention clause.¹⁵⁰ In the agreement, Saccomanno agreed to assign,

¹⁴⁵ See *Aspinwall Manufacturing Co. v. Gill*, 32 F. 697 (1887); See also *Printing, & c., Co. v. Sampson*, 19 L. R. Eq. Cas. 462 (1875).

¹⁴⁶ *Consol. R. E. L. & E. Co.*, 78 A. at 685.

¹⁴⁷ *Id.* Boiled down, this case essentially holds that no future inventive rights can be demanded from a former employee, unless the employer can prove that the employee has developed the invention using trade secrets or some kind of confidential information that would harm the company further than introducing more competition into the field.

¹⁴⁸ *Saccomanno v. Honeywell Int’l, Inc.*, No. A-0513-08T3, 2010 N.J. Super. Unpub. LEXIS 740 (Super. Ct. App. Div. Apr. 7, 2010).

¹⁴⁹ *Id.* at *2.

¹⁵⁰ *Id.*

[anything conceived] either individually or jointly with others, conceive, develop or create during the period of my employment, whether or not during working hours, and which either (a) is within the scope of the Corporation's business or investigations to which my employment relates or gives me access, or (b) is aided by the use of time, materials, facilities or information paid for or provided by the Corporation.¹⁵¹

During Saccomanno's employment, he conceived and assigned over 27 patentable inventions to Honeywell or its subsidiaries.¹⁵² However, working at home, and utilizing \$2,000 of his own money, he developed an ultraviolet radiation disinfectant method.¹⁵³ Saccomanno was obligated to assign his invention to Honeywell and received \$1,500 in consideration for IT.¹⁵⁴

Sacomanno filed a complaint in New Jersey Court of Chancery asking to set aside the assignment.¹⁵⁵ The Chancery Court granted defendant's motion for summary judgment.¹⁵⁶ The Appellate Division upheld the dismissal of the counts challenging the agreement, holding it was enforceable and not against public policy.¹⁵⁷ Mr. Saccomanno's invention was developed at home and with his own resources, but he was still required to assign his invention.¹⁵⁸ Absent the agreement, Honeywell likely would not even be entitled to shop rights for its product because in fairness, it had nothing to do with the invention's creation. It neither proposed the idea, nor contributed to its development. Unfortunately, the power to contract is a powerful idea and if one signs away their rights, courts will uphold the contract.¹⁵⁹

¹⁵¹ *Id.*

¹⁵² *Id.* at *4-5.

¹⁵³ *Id.* at *5.

¹⁵⁴ *Sacomanno*, 2010 N.J. Super. Unpub. LEXIS at *6.

¹⁵⁵ *Id.*

¹⁵⁶ *Id.* at *8.

¹⁵⁷ *Id.* at *17-20.

¹⁵⁸ *Id.* at *5.

¹⁵⁹ Contracts can be invalidated for a variety of reasons, such as incompetence or unconscionability, but these arguments have seen limited success and to this author's knowledge none of these arguments were put forth in this case.

Seventy-eight years after *Consol. R. E. L. & E. Co.*, the issue of “holdover” clauses again arose when a company was attempting to stifle what would be their only competition, by laying claim to an invention that was conceived by an employee months after his employment ended.¹⁶⁰ In *Ingersoll-Rand Co. v. Ciavatta*, Armand Ciavatta joined the Ingersoll-Rand corporation in 1972, working in quality control.¹⁶¹ In 1974, Ciavatta was transferred to a different department and made a project manager.¹⁶² For this promotion, Ciavatta was obligated to sign an employment agreement containing a provision stating that he assigns all inventive rights of inventions conceived “within one year after termination of such employment if conceived as a result of and is attributable to work done during such employment and relates to a method, substance, machine, article of manufacture or improvements therein within the scope of the business of the COMPANY or any of its affiliates.”¹⁶³ In June of 1979, Ciavatta’s employment with Ingersoll-Rand was terminated.¹⁶⁴ After his termination, Ciavatta independently conceived a method for stabilizing the roofs of mines.¹⁶⁵ Ciavatta kept the design, applied for a patent, and began competing with Ingersoll-Rand.¹⁶⁶

Ingersoll-Rand sued Ciavatta claiming that, due to the employment agreement, the invention belonged to it since it was conceived less than a year after termination.¹⁶⁷ The trial court held for Ingersoll-Rand. It found that the former employee did not pirate any trade secret or

¹⁶⁰ See generally *Ciavatta*, 542 A.2d 879.

¹⁶¹ *Id.* at 881.

¹⁶² *Id.* at 882.

¹⁶³ *Id.*

¹⁶⁴ *Id.* at 883.

¹⁶⁵ *Id.*

¹⁶⁶ *Ciavatta*, 542 A.2d at 883–84.

¹⁶⁷ *Id.*

confidential information in designing the invention and made use only of information that was widely available to the public, but nonetheless the agreement was enforceable.¹⁶⁸

The New Jersey Supreme Court held that holdover employee clauses should be analyzed under the *Solari/Whitmyer* non-compete agreement factors.¹⁶⁹ Holdover clauses were not invalid per se, but must be examined for reasonableness.¹⁷⁰ “Courts will not enforce a restrictive agreement merely to aid the employer in extinguishing competition, albeit competition from a former employee. Ultimately, the consuming public would suffer from judicial nurturing of such naked restraints on competition.”¹⁷¹ The Court eventually found the holdover agreement unenforceable because the *Solari/Whitmyer* factors were heavily against Ingersoll.¹⁷² Ciavatta used no information that could be considered a trade secret or confidential and although he used knowledge and skill he gained during his employment with Ingersoll,

Courts also recognize that knowledge, skill, expertise, and information acquired by an employee during his employment become part of the employee's person. An employee can use those skills in any business or profession he may choose, including a competitive business with his former employer. Courts will not enforce a restrictive agreement merely to aid the employer in extinguishing competition, albeit competition from a former employee.¹⁷³

¹⁶⁸ *Id.*

¹⁶⁹ *Id.* at 895. To determine the validity of a non-compete covenant, courts in New Jersey use what has been called the *Solari/Whitmyer* test; the clause is judged for reasonableness by weighing three factors: 1) the clause's use in protecting legitimate employer interests; 2) the amount of hardship imposed on the employee; and 3) the amount of injury to the public in enforcing the clause. *Solari*, 264 A.2d at 53; *See also Whitmyer Bros., Inc. v. Doyle*, 274 A.2d 577 N.J. LEXIS 222 (N.J. January 1, 1971).

¹⁷⁰ *Ciavatta*, 542 A.2d at 887–88.

¹⁷¹ *Id.* at 892.

¹⁷² *Id.* at 895. (The *Solari/Whitmyer* analysis weighs the legitimate employer interests protected by the contract against the undue hardship imposed on the employee and the harm imposed on the public. Due to the fact that the technology used to create Ciavatta's invention did not involve trade secrets or information that only could be obtained from Ingersoll the employer interest prong of the test was very low. Simply stifling competition is not a legitimate interest. Ciavatta would have to dissolve his company and Ingersoll would return to an effective monopoly on the mine stabilizer industry. The employee hardship and public injury prongs were heavily weighted.) *See Solari*, 264 A.2d at 53.

¹⁷³ *Ciavatta*, 542 A.2d at 896.

Unlike the previous case, New Jersey courts were able to vindicate Ciavatta’s right to his invention. This latitude was due to an innovative argument, equating the “holdover” agreement to a non-compete agreement, which New Jersey courts scrutinize carefully in order to balance employer and employee interests and the public interest in free competition.¹⁷⁴ Regrettably, this argument is largely unavailable to those wishing to maintain their inventive rights to ideas conceived during their tenure with their employer, and generally only available to “holdover” clauses.

As exemplified above, the courts are able to help employees seeking to protect their inventions conceived after their employment, but not those developed independently of their employer during their employment. The New Jersey legislature took notice and in 2018, enacted its own employment invention statute.¹⁷⁵ The statute in full can be found in appendix B of this article.

The New Jersey statute is based on the Minnesota model. Other than a few key differences it largely tracks this model. Section (1) seeks to limit an employer’s reach to its employee’s intellectual property by stating that only certain inventions are assignable under employment agreements.¹⁷⁶ A comparison to the other Minnesota-based statutes will uncover some differences that may distinguish the New Jersey statute from others of its kind.

¹⁷⁴ See *Solari*, 264 A.2d 53, 1970 N.J. LEXIS 175 (restrictive covenants are generally not favored by the courts).

¹⁷⁵ N.J. Stat. § 34:1B-265.

¹⁷⁶ *Id.* Any provision in an employment contract between an employee and employer, which provides that the employee shall assign or offer to assign any of the employee’s rights to an invention to that employer, shall not apply to an invention that the employee develops entirely on the employee’s own time, and without using the employer’s equipment, supplies, facilities or information, including any trade secret information, except for those inventions that: (a) relate to the employer’s business or actual or demonstrably anticipated research or development; or (b) result from any work performed by the employee on behalf of the employer.

Section (1) of the Minnesota based statutes read “Any provision in an employment agreement . . . shall not apply to an invention for which no equipment, supplies, facility, **or trade secret information** of the employer was used. . . .”¹⁷⁷ The same section in the New Jersey statute reads, “Any provision in an employment contract . . . shall not apply to an invention that the employee develops . . . without using the employer’s equipment, supplies, facilities, **or information, including any trade secret information . . .**”¹⁷⁸ The statute was recently enacted, so no cases have yet been decided with the new law in place, but New Jersey’s structure allows for a somewhat wider leeway for employers since an employee’s use of “information” is not limited to “trade secrets.” The *Ciavatta* case specifically held a holdover clause unenforceable because the inventor only used non-trade secret and publicly available information to design his invention, this clause would seemingly overrule that.¹⁷⁹

Like the other Minnesota based statutes, except for Kansas and North Carolina, New Jersey is silent as to the party that carries the burden of proof as to whether the invention falls within or without the agreement.¹⁸⁰ Restrictive covenants are typically not favored in New Jersey¹⁸¹ Obligations to assign employment inventions are essentially restrictive covenants. Many employees take their intellectual property and develop a competing business.¹⁸² Since courts in New Jersey generally favor competition in the marketplace and have explicitly stated their dislike

¹⁷⁷ Minn. Stat. § 181.78; Wash. Rev. Code. §§ 49.44.140-.150; Cal. Lab. Code § 2870; N.C. Gen Stat. Ann. § 66-57.1; Del. Code Ann. Tit. 19 § 805; 765 Ill. Comp. Stat. Ann. § 1060/2; Kan. Stat. Ann. § 44-130 (emphasis added).

¹⁷⁸ N.J. Stat. § 34:1B-265(1) (emphasis added).

¹⁷⁹ 542 A.2d at 892, 895. (The court made special note that information generally known to or that could be obtained by anyone working in the industry does not entitle an employer to force an employee to assign his intellectual property rights. This section of the statute could effectively broaden the law to include any information whether generally known or not.)

¹⁸⁰ N.C. Gen Stat. Ann. § 66-57.1; Kan. Stat. Ann. § 44-130.

¹⁸¹ See *Solari*, 264 A.2d 53, 1970 N.J. LEXIS 175 (restrictive covenants are generally not favored by the courts).

¹⁸² 542 A.2d at 892, 895.

for restrictive covenants, courts may place the burden on the employer, since it is not explicitly written, but until a case is decided regarding this issue, this is only speculation.¹⁸³

In Section (1)(a), Minnesota requires the invention to be **directly related** to the employer's business, but New Jersey, similar to California, North Carolina, Delaware, and Illinois, have removed "directly" from this section and require the invention to only be related to the employer's business.¹⁸⁴ This could also expand the employer's ability to claim ownership over their employee's inventions if the courts construe the clause broadly as California courts have.¹⁸⁵

As in Delaware, North Carolina and California, New Jersey does not require employers to inform their employees that assignment agreements do not pertain to certain inventions.¹⁸⁶ Arguably, knowledge is power, and many employees may be helpless to affect their situation if they are unaware of the rights that they do possess. An illegal contract can only be fought if someone raises the issue to the courts.

A point that the New Jersey statute is unique is in section (1)(b): "Any provision in an employment contract . . . shall not apply . . . except for inventions that . . . result from any work performed by the employee **on behalf** of the employer."¹⁸⁷ "All other Minnesota based statutes use the language "Any provision in an employment agreement . . . shall not apply . . . except for inventions that . . . result from any work performed by the employee **for the** employer."¹⁸⁸ It is

¹⁸³ See *Solari*, 264 A.2d 53, 1970 N.J. LEXIS 175 (restrictive covenants are generally not favored by the courts).

¹⁸⁴ Minn. Stat. § 181.78; Cal. Lab. Code § 2870; N.C. Gen Stat. Ann. § 66-57.1; Del. Code Ann. Tit. 19 § 805; 765 Ill. Comp. Stat. Ann. § 1060/2; N.J. Stat. § 34-1B-265.

¹⁸⁵ See *Bhandari*, 2007 U.S. Dist. LEXIS 83078 (N.D. Cal. 2007) (Court construed "related to" phrase broadly in Cal. Lab. Code §2870 to force the assignment of patent rights from inventors to former employer when the former employer was not aware of the patented technology until the inventors told them and the invention was outside the employee's scope of employment).

¹⁸⁶ Cal. Lab. Code § 2870; N.C. Gen Stat. Ann. § 66-57.1; Del. Code Ann. Tit. 19 § 805; N.J. Stat. § 34:1B-265.

¹⁸⁷ N.J. Stat. § 34:1B-265(1)(b).

¹⁸⁸ Minn. Stat. § 181.78; Wash. Rev. Code. §§ 49.44.140-.150; Cal. Lab. Code § 2870; N.C. Gen Stat. Ann. § 66-57.1; Del. Code Ann. Tit. 19 § 805; 765 Ill. Comp. Stat. Ann. § 1060/2; Kan. Stat. Ann. § 44-130.

unclear what, if any, differences in statutory interpretation this change will produce, but it is possible that courts may use this to construe the statutes more narrowly for the benefit of the employee. An argument can be made that “**for the employer**” is any work done that effects the employer’s business, whether voluntarily performed by the employee or through a duty assigned by the employer or a supervisor. “**On behalf** of the employer” could be interpreted as only intellectual property that was a result of a duty assigned to the employee by the employer or a supervisor, and all tasks performed outside of this voluntarily performed by the employee are not within the breadth of this exception. Until a case is decided based on this statute, this matter of statutory interpretation is left open, and it will be up to the courts to decide what, if any, difference this change in language will product.

V. **Conclusion**

The unfettered reach towards their employee’s inventions has severely encumbered not only the employees’ abilities to attain higher salaries and greater success, but has stifled competition by ensuring that no new ideas could ever be used to compete against the companies that employed their inventors. Courts and legislatures have been slow to react to this inequity, perhaps due to the limited scope of individuals that these provisions have a direct affect. Although, due to enactment of legislation, it appears governments are beginning to realize the larger consequences. These provisions should be viewed by the courts and the legislature as what they are: non-compete agreements.

Countries in Europe and Asia have been enacting statutes to control this issue since the mid-1900s, but American legislatures have been much slower to react. The American Founding Fathers knew the importance technology would have on America’s growth and the current state of affairs is far from what they intended. The states that have passed statutes have taken a step in the

right direction, but the statutes based on the Minnesota model are far too weak to do inventors justice. As observed in cases involving these statutes, the abilities for inventors to retain their intellectual property rights are severely limited; the Bratz case was the quintessential outlier that no one expected to succeed. There are also states like Nevada that are passing legislation to give more power to employers, which are already in such a strong bargaining position regarding employment contracts. Foreign statutes require that employers provide employees with “fair” compensation, but inventors are still largely unable to retain their rights if they wish.

It is this author’s opinion that the most equitable system of employment intellectual property distribution is what was considered American common law: If an employer hired an employee or contractor to specifically invent something, it belongs to the employer; if the employee or contractor, while employed, happens to invent or improve something and uses the employer’s resources or time, the rights belong to the inventor, and the employer is given shop-rights; if the employee or contractor happens to invent something while employed and uses no employer resources, time, confidential information, or trade secrets, the invention completely belongs to the employee with no rights transferred to the employer.

This is consistent with judicial approaches to formal non-competition agreements for employees. Courts dislike such agreements but will enforce them if they are needed to protect employer interests. Over the years, courts have taken steps to ensure that non-compete agreements are reasonable and do not simply hinder competition.¹⁸⁹ Some courts were beginning to treat certain types of assignment agreements the same way.¹⁹⁰ We live in a world of increasing bargaining power disparity; everyone in America has signed some type of adhesion contract,

¹⁸⁹ See generally *Solari*, 264 A.2d 53, 1970 N.J. LEXIS 175 (restrictive covenants are generally not favored by the courts).

¹⁹⁰ See generally *Ciavatta*, 542 A.2d 879.

whether it be with their employer, a corporation, or an insurer. Courts have been attempting to find a balance between allowing these contracts as the only practical way to do business at such a large scale and protecting employee/consumer rights.¹⁹¹

Capitalism thrives on competition and anti-trust laws is slow and can only do so much.¹⁹² Allowing individuals to retain ownership of their inventions and ideas would allow an avenue for nascent businesses to thrive; in *Ciavatta* the introduction of a competitor of mineshaft stabilizers forced Ingersoll-Rand to reduce their prices for the first time in over half a decade.¹⁹³ A statute ensuring employee's rights can benefit individuals and the public by introducing more companies into the marketplace, increasing competition, and increasing employee wages while decreasing product prices.

¹⁹¹ See generally *Defontes v. Dell, Inc.*, 984 A.2d 1061 (R.I. 2009); See also *Hines v. Overstock.com, Inc.*, 668 F. Supp. 2d 362 (E.D.N.Y. 2009).

¹⁹² Hal J. Singer, *Paid Prioritization and Zero Rating: Why Antitrust Cannot Reach the Part of Net Neutrality Everyone Is Concerned About*, A.B.A. 1 (August, 2017), https://www.americanbar.org/content/dam/aba/publishing/antitrust_source/aug17_full_source.pdf.

¹⁹³ 542 A.2d at 881,884.

VI. Appendix A: Minnesota's Employment Invention Statute

Subdivision 1. Inventions not related to employment. — Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of the employee's rights in an invention to the employer shall not apply to an invention for which no equipment, supplies, facility or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (1) which does not relate (a) **directly** to the business of the employer or (b) to the employer's actual or demonstrably anticipated research or development, or (2) which does not result from **any** work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable.

Subd. 2. Effect of subdivision 1. — No employer shall require a provision made void and unenforceable by subdivision 1 as a condition of employment or continuing employment.

Subd. 3. Notice to employee. — If an employment agreement entered into after August 1, 1977 contains a provision requiring the employee to assign or offer to assign any of the employee's rights in any invention to an employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement **does not apply to an invention for which no equipment, supplies, facility or trade secret information of the employer was used and which was developed entirely on the employee's own time**, and (1) which does not relate (a) **directly** to the business of the employer or (b) to the employer's actual or demonstrably anticipated research or development, or (2) which does not result from any work performed by the employee for the employer.¹⁹⁴

¹⁹⁴ Minn. Stat. § 181.78 (emphasis added).

VII. **Appendix B: New Jersey Statute Enacted to Balance Employee-Employer Power**

1) Any provision in an employment contract between an employee and employer, which provides that the employee shall assign or offer to assign any of the employee's rights to an invention to that employer, shall not apply to an invention that the employee develops entirely on the employee's own time, and without using the employer's equipment, supplies, facilities or **information, including any trade secret information**, except for those inventions that:

(a) relate to the employer's business or actual or demonstrably anticipated research or development; or

(b) result from any work performed by the employee **on behalf** of the employer.

(2) To the extent any provision in an employment contract applies, or intends to apply, to an employee invention subject to this subsection, the provision shall be deemed against the public policy of this State and shall be unenforceable.

b. No employer shall require a provision made void and unenforceable by this act as a condition of employment or continued employment. Nothing in this act shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for:

(1) disclosure, provided that any disclosure shall be received in confidence, of all of an employee's inventions made solely or jointly with others during the term of the employee's employment;

(2) a review process by the employer to determine any issues that may arise; and

(3) full title to certain patents and inventions to be in the United States, as

required by contracts between the employer and the United States or any of its agencies.

c. Nothing in this act shall be deemed to impede or otherwise diminish the rights of alienation of inventors or patent-owners.¹⁹⁵

¹⁹⁵ N.J. Stat. § 34-1B-265.