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Employment Agreements for the Inventing Worker: A Proposal for Reforming Trailer Clause Enforceability Guidelines

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ARTICLES

EMPLOYMENT AGREEMENTS FOR THE INVENTING WORKER: A PROPOSAL FOR REFORMING TRAILER CLAUSE ENFORCEABILITY GUIDELINES

Peter Caldwell*

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I. INTRODUCTION

Over the course of the twentieth century, employment contracts have evolved to compensate for the shortcomings of common law. At common law, employers have no ownership right to their employees' post-termination inventions. However, employment contracts can supersede the common law, and most employers have taken advantage of this mechanism to secure their commercial interests.

Through experience, employers have become savvy enough to insist that all employees assign their inventions made during employment and inventions made post-termination, when reasonable. Yet, with the emergence of such comprehensive covenants, the courts have grappled with the question of how to gauge their enforceability. Should an assignment of future inventions be treated like any other restrictive covenant? Although the methodology for assessing the enforceability of non-competition agreements is well established, is this methodology easily transferable to inventive subject matter which, admittedly, is characterized by different attributes? All of these questions will be addressed in this commentary.

In the case law, the prevailing trend has been to apply non-competition principles to invention-assignment trailer clauses. As argued here, this approach is misguided because the variables on which non-competition analysis depends were not designed to protect the interests associated with inventive subject matter. For this reason, a new test is proposed which is adapted to the interests at stake in invention assignment clauses, both to employers and employees.

Along with this proposal, it will be argued that nondisclosure-confidentiality clauses are more closely related to invention covenants than non-competition clauses. Accordingly, the analytical framework for future inventions covenants (trailer clauses) should have been more closely aligned with confidential information agreements than the non-competition analysis currently used.

Before engaging in a debate on these issues, a review of the legal framework for future invention assignments is required. As a preliminary measure, we will therefore present an overview of the law, including the common law rules, the law of "future improvements" clauses, and finally the rules governing trailer clauses. Thereafter, the law of trailer clause language, scope, and enforceability will remain the analytical focus of this commentary.

II. THE LEGAL FRAMEWORK

What rules govern the ownership of inventions and corresponding patents if a patent application has been made? In employment relationships, the answer to this question would depend on three factors, namely: (1) whether a contract has
been entered into between the inventor and employer, and, if so, (2) whether trailer clause language was used, or (3) a “future improvements” clause instead. The rules governing all three of these scenarios are addressed in the following.

In the absence of a contract between employer and employee, the common law rules dictate ownership or assignment of ownership with respect to an employee’s invention. The common law rules also govern ownership if an “intellectual property agreement” existed between employer and employee, but its provisions have been declared void or unenforceable. Bearing this in mind, we will briefly introduce the common law rules governing ownership in employment relationships.

A. COMMON LAW RULES OF INVENTION OWNERSHIP

Absent a written agreement, employees who are hired for the purpose of inventing, or who are assigned to a project which primarily involves inventing, must surrender to their employers any ownership right in their inventions. 1 Whether an employee was hired for the purpose of inventing can be determined by inference, if not agreed to explicitly between the parties. 2 If this test is satisfied, the employer will acquire full title to the invention, including any patents which have been issued on it. 3 If ownership, or even a patent, has already been granted in favor of the inventing employee, a court would order the employee to assign all rights in the invention (or corresponding patent) to the employer as well.

However, the “hired to invent” rules do not apply if the employee was hired to develop an invention that he had previously conceived on his own before hire. 4 Nor can employers acquire ownership of inventions developed and reduced to practice by the employee after his termination, since such inventions would fall outside the employment relationship. 5

In addition, the “hired to invent” rule does not apply if an employee was hired to perform work which was “general” in nature. In the latter case, or if the

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1 State v. Neal, 12 So. 2d 590, 591 (Fla. 1943).
2 Id. at 592. In City of Cocoa v. Leffler, 803 So. 2d 869, 873 (Fla. Dist. Ct. App. 2002), the court considered the following factors from Neal to determine whether an employee was hired to invent: (1) was the employee paid from funds which were earmarked for that particular invention?; (2) did the employee devote the majority of his time to the work from which the invention arose?; (3) did the employer pay all expenses associated with obtaining the patent, if one was issued?; (4) was the employee given the specific task of developing a new method relating to the resulting invention?; (5) did the employer attempt to first obtain a patent in the name of the employer?
3 Neal, 12 So. 2d at 591.
5 Int’l Carrier-Call & Television Corp. v. Radio Corp. of Am., 142 F.2d 493 (2d Cir. 1994).
worker was hired not specifically for the purpose of inventing, the employee will retain all ownership rights to their own invention.  

Apart from these rules, there is one additional doctrine which protects inventing employees who have not entered into agreements with their employers. This doctrine secures title to employees who invent at home, without their employer’s equipment, compensation, or supplies. Because of this disconnect from their employer’s own inventions, workplace, and activities, the employee is rewarded ownership of his invention under the common law.

There are also employees who were not hired to invent, but who nonetheless used the employer’s time, equipment, workplace, and resources to craft what resulted in an invention. In the absence of an intellectual property agreement, this category of worker will maintain full ownership of their invention, except that the employer will own a “shop right” in it. A shop right is the non-exclusive and non-transferable license to use an employee’s invention within the employer’s workplace or for the conduct of the employer’s business. Owning a shop right does not, however, earn the employer any royalties from the invention’s subsequent sales.

Even after the inventing employee departs, the employer maintains ownership in the shop right. Regardless of whether the inventing employee later proceeds to patent the invention, the employer will nonetheless maintain a shop right to use that invention permanently.

Finally, employees can also be forced to assign their inventions to their employers if they held positions of trust and were fiduciaries of the company. This applies to employees who were in positions of upper management or who had access to sensitive company information including trade secrets.

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6 Id. at 508.
8 Id.
10 However, the right is transferable if the employer sells its company. In this case, the shop right will remain with the business after sale. Cal. E. Labs., Inc. v. Gould, 896 F.2d 400, 402 (9th Cir. 1990).
12 Id.
14 Id.
B. CONTRACTUAL RULES OF EMPLOYER INVENTION OWNERSHIP

The common law rules set out in the foregoing can be overridden by an express written or verbal agreement.\(^{16}\) As a general rule, future patents (or unpatented ownership rights in future inventions) are assignable from employee to employer, provided the assignment is made in clear and unequivocal terms.\(^{17}\) It also must be made at the time of hire and not once the employment is underway; if an assignment of invention rights is made after the employment has begun, new consideration will be needed in exchange for the continuation of employment-at-will.\(^ {18}\)

If an ownership interest in an invention is already embodied in a patent (or patent application), assignment of this interest can only be made in writing.\(^{19}\) Otherwise, mere unpatented title to an invention can be assigned from employee to employer, even if the invention does not yet exist.\(^ {20}\)

Since future invention assignments are what concern us in this commentary, we will concentrate on the legal principles of invention ownership following an employee's departure from the workplace. As addressed in the foregoing, without an intellectual property agreement, employers can only hope to own their employees' inventions if the employee was "hired to invent." Absent this requirement, employers who have no employment contract with their workers will see their employees' inventions leave when the employment relationship is terminated. If an employer has not taken the precaution to secure an invention ownership clause, the employer cannot profit from inventions made in their own workplace, will have no title to them, and certainly cannot patent them.

Given these disadvantages in the common law rules, it is increasingly common for employers to have their employees sign a future inventions clause upon hire.\(^ {21}\) Evidently, if an employee produces a highly lucrative invention, the employer has

\(^{16}\) Burr v. De La Vergne, 7 N.E. 366, 369 (N.Y. 1886).

\(^{17}\) Monsanto Chem. Works v. Jaeger, 31 F.2d 188 (W.D. Pa. 1929). Note, however, that if an assignment for future inventions is made before the inventions actually exist, the assignee will only hold equitable title. Once the invention has been completed, the assignee then acquires full title and even patent rights if an application has been filed. Filmtec Corp. v. Allied-Signal, 939 F.2d 1568 (Fed. Cir. 1991).

\(^{18}\) Mirafi v. Murphy, 14 U.S.P.Q.2d (BNA) 1337, 1350 (W.D.N.C. 1989).


\(^{20}\) Littlefield v. Perry, 88 U.S. 205, 226 (1874). However, if the invention does not exist, the employee can only assign equitable title to the employer. This equitable title will become a valid legal title to the invention once the invention exists. Id.

every incentive to secure an exclusive right to own and market it, even after the employee has departed from the workplace.

Generally speaking, clauses for assigning future (post-employment) inventions are drafted in two types. The first is the “future improvements” type, which grants the employer title to inventions made by the worker while employed, in addition to any improvements on those inventions made after the employment relationship has ended.

The second is the “trailer clause” type. A trailer clause is a provision in an intellectual property agreement which is phrased much like a non-competition clause. Typically, in a trailer clause for future inventions, the employee covenants to assign all post-employment inventions to the employer if they relate to the employer’s field of work. Depending on the contractual language, a future inventions trailer may only be effective for a specified number of months or years following termination, and is typically drafted to be limited in territorial scope.22

Since the law governing these two types of future invention assignments differs, let us address each one in turn, beginning with future improvements clauses.

1. Ownership Rules for “Future Improvements” Clauses. Future improvements clauses are no longer as frequently used as they once were. The trailer clause phrasing has generally superseded “improvements” provisions due to the superior protection which trailers provide.

The typical improvements clause is drafted to reference the inventions which the employee has been hired to invent, followed by phrasing such as “licensors hereby license and grant to the licensee...the inventions...and all applications or patents for improvement thereof.”23 Another example could resemble the following:

J.A. Mould and C.B. Duffey hereby assign, transfer...all the rights...[in] any and all inventions in which they or any of them may have an interest, whether patented or unpatented, relating to the subject-matter of any of said patents or improvements thereon, including any invention or improvement that they or any of them may make in the future relating thereto...24

Other phrasing is also used but, generally speaking, these clauses grant the employer ownership of any foreseeable inventions and any “improvements” to them made following termination.

22 Id. at 56.
24 Gas Tool Patents Corp. v. Mould, 133 F.2d 815, 816 (7th Cir. 1943) (emphasis added).
Even where such clauses specifically reference future improvements, the courts have construed these clauses to cover only inventions (and their improvements) which actually existed when the contract was entered into:

It is well settled that an agreement to assign a patent and improvements thereon covers only improvements existing at the time the agreement was entered into unless the language specifically refers to future improvements. The law does not look favorably upon covenants which place “a mortgage on a man’s brain, to bind all its future products”. To effect an assignment of future improvements to a patent which the inventor may thereafter produce “the language of the contract must be very plain and evidence unmistakably that such an agreement was in the mind of the inventor.”

In the absence of more specific language, such clauses cannot cover inventions not yet made or improvements not begun when the contract was drafted. Additionally, they will not cover post-employment improvements to those inventions unless the intention to do so was manifestly clear. The mere phrase “and any future improvements thereon” is not sufficient to enforce this intention:

A contract assigning future improvements and future inventions will be enforced only where the language evidencing such an intention is clear and convincing. We hold that the provisions of the 1950 contract are not sufficiently clear and free from ambiguity to meet the test announced and applied in the foregoing decisions; and that the language of this contract is not so specific as to embrace all future inventions that might be perfected by Messrs. Hoern and Dilts relating to the broad class of non-indexing, non-continuous” boring machines. To the contrary, in granting an exclusive license to “said Rotary-Cam Actuated Boring Machines” and future improvements thereon, the 1950 contract . . . concededly does not embrace Patent No. 2,872,853.

There is also the rule that these clauses and, in fact, any clause pertaining to ownership of future inventions beyond termination, must be strictly construed. The extent of ownership assigned to the employer cannot exceed that which is

26 New Britain Mach. Co. v. Yeo, 358 F.2d 397, 405 (6th Cir. 1966) (emphasis added) (citations omitted).
explicitly and unquestionably provided for in the clause. The clause must be construed to encompass the least of any interpretable scope, when phrased “any improvements thereon”:

“[W]hen the parties executed the contract . . . they had in mind the particular function accomplished by the Saunders patent, rather than the broad field of the possible future development of any kind of gas hammer. . . .” [A] construction of the contract requiring appellee to turn over any invention he might make at any time in the future which could in any way be used in connection with any kind of gas hammer was not required, and that the invention . . . was not in contemplation of the parties . . . . While the contract here involved is not the ordinary employer-employee one, the same general principles of construction must be applied. Such contracts, when they provide for the assignment of patents beyond the term of the employment, are to be strictly construed; they must be fair, reasonable and just. The rule is further stated in 25 R.C.L. Specific Performance Sec. 108, “Nor will equity compel compliance with an agreement to assign future inventions made after the inventor, having been discharged from the employment . . . .”

Other cases have similarly insisted on construing the scope of future inventions clauses narrowly, particularly those which are ambiguous, because they apply only to “improvements.”

In short, the experience of employers using “future improvements” language in their workers’ invention assignments has not been favorable. The term “all future improvements thereon” and similar phrasing is not specific enough to guarantee the employer ownership of future inventions, and certainly not ownership of patents already issued to the employee.

For this reason, trailer clause invention assignments have become increasingly prevalent in the workplace. These clauses, designed to secure assignment of an employee’s future inventions, are of particular concern in this commentary.

2. Ownership Rules for Trailer Clauses. The purpose of an inventions trailer clause (also known as a holdover clause) in an employment agreement “is to prevent an employee from appropriating to his own use or to the use of a subsequent employer inventions relating to and stemming from work done for a previous employer. . . . [I]n equity and good conscience the fruits of that work

27 Mould, 133 F.2d at 817-18 (emphasis added).
28 Yee, 358 F.2d at 408.
should belong to the former employer."²⁹ However, these clauses are not always enforceable, even though they are signed by most inventing employees upon hire.

As described in the foregoing, trailer clauses are a more specific means of assigning post-employment inventions than their simplistic future improvements counterparts. This is because trailer clauses require employees to assign their rights to inventions during employment and after termination for a specific duration, within a designated territorial radius, and are limited to specific types of inventions or subject matter. The parameters of these clauses are therefore designed to avoid the ambiguity which improvements clauses may have been prone to.

The phraseology of trailer clauses in invention assignments resembles the restrictive covenants used in non-competition agreements. It is perhaps for this reason that the courts have created rules to interpret their construction based on the non-competition "reasonableness" standard. As one court observed,

New Jersey courts previously have not specifically addressed the enforceability of a 'holdover' clause. We have, however, addressed the enforceability of analogous employee noncompetition contracts. We find that our determination on the enforceability of those post-contracts is applicable to our determination in this case of the enforceability of 'holdover' clauses.³⁰

Virtually every other court has followed this logic. Because, historically, there have been relatively few trailer (holdover) judgments pertaining to employee inventions, in the absence of an existing rule, the courts have chosen to follow the non-competition model.³¹

Within this legal framework, a court must determine whether a clause is enforceable as a measure of its reasonableness with respect to three constraints: (1) time, (2) subject matter, and (3) territorial scope. This is because "covenants which restrict employment are against public policy."³² To determine the degree of reasonableness in restrictive invention covenants, a court must therefore apply the following test: "A holdover provision will not be enforced unless it 'protects the legitimate interests of the employer, imposes no undue hardship on the employee and is not injurious to the public.'"³³

³¹ See id.
The courts that rely on this test have borrowed it directly from the non-competition case law. It has been restated in several ways for the purpose of inventions clauses, with minor variation. Yet, the three factors remain largely the same from court to court:

With respect to the question of whether the provision of defendant Calhoon's contract requiring him to disclose and assign all ideas and improvements for a period of five years after termination of his employment is void against public policy, three principles of law must be considered: 1) Is the restraint reasonable in the sense that it is no greater than necessary to protect the employer in some legitimate interest? 2) Is the restraint reasonable in the sense that it is not unduly harsh and oppressive on the employee? 3) Is the restraint reasonable in the sense that it is not injurious to the public?34

In a few decisions, this formula for reasonableness has been described as a balancing test between the interests of the employer and the employee, based on which party has the most at stake.35

For purposes of invention trailer clauses, what is "reasonable" between employer and employee? The case law unanimously articulates that a covenant is unreasonable and void if it is without any limitation in one of the three parameters of time, territory, and subject matter.36 In terms of the temporal restraints on invention assignments, this is no less true. In this regard, one court has commented:

The agreements in question are for an indefinite period of time. One employee worked for Interface for one year and the other for only a few months. It is now ten years later and Interface seeks to enforce termination agreements against these former employees which would require them to turn over all inventions for an indefinite period of time covering subjects both within the Company's field of activity or "contemplated field of activity." It is hard to imagine a more restrictive or overbroad agreement. It

would be reasonable to restrict these ex-employees from using information gathered at Interface. It is not reasonable to confiscate all new inventions made by the employees for which Interface might have an interest.

Because the employee termination agreements are invalid, they cannot be the basis for imposing a constructive trust as alleged in Count II. It is well settled that invalid agreements are unenforceable. 37

Thus, the reasonableness of any of the three constraints must be determined according to whether the employer, in its inventions covenant, attempted to protect more than its legitimate interests. "Generally, a clause is unreasonable if it: (1) extends beyond any apparent protection that the employer reasonably requires [or] (2) prevents the inventor from seeking other employment . . . ." 38 In another decision, an invention trailer assignment was held unreasonable and void because it forced the employee to assign all inventions of any type for ten years following termination. 39 The ten year ban was deemed to be an unreasonable restraint on trade:

The provision of the contract here sought to be enforced that for 10 years after its termination every invention shall be assigned to the plaintiff savors of restraint of trade. It projects itself so far beyond the period of actual employment and payment of wages that it appears plainly to be in aid of the unlawful combination. It would choke the inventive capacity of the defendant for a period so long after his employment ceased that his usefulness to himself or to any competitor would be extinguished in most instances. 40

As regards subject matter reasonableness and enforceability in invention covenants, the courts have addressed a range of possibilities. Evidently, a subject matter restriction which is finely-tuned to one specific invention will not be unreasonable. On the other hand, if the subject matter is limited to an entire industry or field of inventions, it may be an unreasonable restraint of trade. A covenant which forces an employee to assign his invention regardless of "subject matter" will categorically be unreasonable:

38 Ciavatta, 542 A.2d at 888 (citation omitted).
39 La Chapelle, 99 N.E. at 293.
40 Id.
[The agreement] is not limited to the subject matter to which the employee directed his attention when in the employ of appellee, but extends to any business "in which said company during the period of my employment by said company or by its predecessor or successor in business is or may be concerned." In other words, if appellee's predecessor were engaged in any other business to which appellant's discovery might relate or its successor shall be concerned, the contract applies.

Upon the facts peculiar to this case we are convinced that those provisions of the contract which were limitless in extent of time and in subject matter of invention were contrary to public policy . . . . Under this contract he was, however, if he worked in another laboratory or for another manufacturer, required to assign his discoveries to appellee. This would effectively close the doors of employment to him. . . . Such a contract conflicts with the public policy of the land, which is one that encourages inventions and discourages the exclusion of an employee from engaging in the gainful occupation for which he is particularly fitted for all time, anywhere in the United States.41

This decision, Guth v. Minnesota Mining, is typical in that it implies that a covenant will be reasonable only if limited to the former employer's area of expertise, but not if it could be interpreted broadly to encompass inventions in several disciplines.42

As for the reasonableness of a covenant's territorial scope, this would depend on the employer's region of business.43 It would also depend whether the covenant forces the employee to leave town to find subsequent employment.44 On the whole, if the agreement is too demanding on the employee in terms of

41 Guth, 72 F.2d at 388-89.
42 Id.
43 The territorial scope of covenants has not been the subject of any significant judicial scrutiny in the above-cited cases on inventing employees. This may be due to employers omitting territorial restrictions where a covenant secures the employer's interest by including subject matter and temporal limits on invention ownership. Nonetheless, by analogy with the case law governing non-competition covenants, the size of the employer's business region may contribute to a determination of a covenant's reasonableness. See Innovative Networks, Inc. v. Satellite Airlines Ticketing Ctrs., Inc., 871 F. Supp. 709 (S.D.N.Y. 1995); McAlpin v. Coweta Fayette Surgical Assocs., P.C., 458 S.E.2d 499 (Ga. Ct. App. 1995).
territorial scope, it would be deemed unreasonable and therefore void. As one court has observed:

These cases hold that such contracts are not void if they are unreasonably in restraint of trade. In determining their reasonableness, an attempt should be made to weigh the competing interest of employer and employee and to give full consideration to the public interest. In terms of these interests, a covenant will be void ab initio if it "extends beyond any apparently necessary protection which the complainant might reasonably require, and thus, without benefiting him, it oppresses the respondent, and deprives people in other places of the chance which might be offered them" to avail themselves of his services. 45

To reiterate, the foregoing factors of time, territory, and subject matter are the deciding variables in the balancing-of-interests test which weighs: (1) the employer’s legitimate interests, (2) undue hardship to the employee, and (3) the public interest. 46 Thus, given the territorial, temporal, and subject matter constraints, if an inventions clause grants future assignment rights only to the extent necessary and in a manner that does not unduly restrict the employee’s subsequent employment search, or offend the public interest, the covenant will be deemed reasonable and enforceable. 47

Finally, before invention rights can even be considered under this test, the thing in dispute must amount to an invention. 48 If it is an idea not yet put into practice, the idea is not an invention within the meaning of most trailer clauses. 49 However, if an invention was developed to the point of a drawing or blueprint, it likely will come within the ambit of the trailer clause, even if it has not yet been converted to tangible form and has not met the patentability requirements of novelty and utility. 50 Depending on the language of the contract, this rule will bind the employee, even if he prepared the drawing in his own home. 51

Despite all the foregoing rules, and regardless of how binding a restrictive covenant may be, the law does not prevent inventors from using the general skills

47 Id.
49 Id.
50 Id.
51 Id.
and knowledge gained through their former employers. This experience is always transferable from employer to employer without restriction.

III. THE TRAILER CLAUSE FOR FUTURE INVENTION ASSIGNMENTS: A CRITIQUE

Having set out the invention ownership rules for employment agreements, the next portion of this Article will critically review the courts' trailer clause standards. Of particular interest, we will address whether an analytical framework designed for non-competition agreements is appropriate when applied, as it is, to trailer clauses for invention assignment and ownership. By analogizing these two types of (seemingly) related covenants, did earlier courts misguide later courts by grouping both covenants together leading current courts to examine trailer clauses from a one-size-fits-all perspective? The following portion of this Article addresses this issue and proposes a solution for reform.

A. CRITICAL PERSPECTIVES

Among those who have criticized the courts in this field, most commentators have advocated a more employee-friendly test for invention assignments within trailer clauses. This rationale has been supported by a variety of reasons, including encouraging the employee's inventive productivity rather than restraining it:

The public policy issues involved in the enforceability of these holdover clauses reflect the dichotomy of our views on the rights of an inventor and rights of an employer. Our society has long recognized the . . . importance of providing stimulation and encouragement to inventors. . . . [T]he United States is in danger of losing its position as technology leader of the world. . . . America is experiencing a declining patent balance and is less patent-productive than many foreign countries.

This view has more poignantly been expressed from the position of the subsequent employer. Some advocates have urged a less restrictive test for trailer clauses because employers do not wish to hire someone inventively bound to their former company:

While a trailer clause technically does not prohibit an inventive employee from working for a competitor, business competitors do not desire to hire individuals obligated under such a clause because the work product of such employees may not accrue to the new employer's benefit. At best, employers that hire inventive employees obligated under such agreements will under-utilize the employees' inventive skills so as not to develop conflicts with prior trailer clauses. This under-utilization of a burdened inventive employee's creative capacity may concomitantly diminish his rate of compensation. At worst, the inventive employee is unemployed. In today's society, where technology is advancing at breakneck speed, under-utilization or non-utilization of inventive skill may cause an inventive employee's creative capabilities and talent to atrophy.54

Scholars have also urged that, because there is no common law right granting employers post-termination ownership of their employees' inventions (unless the employee is "hired to invent"), trailer clauses have no legal reason to exist and should therefore be construed by the courts as void per se:

To the extent that trailer clauses are boilerplate and included in general, non-inventive employees' contracts, the clauses should be considered unenforceable per se. In these situations, these adhesive clauses are imposed upon employees and protect no real employer interest. . . . Unless an individual is in demand, for example, if one is a Nobel Laureate, a trailer clause will be imposed adhesively upon an inventive employee by large corporations. . . . Using trailer clauses to protect mere expenditures, in essence, imposes a restrictive covenant where one would otherwise not be allowed . . . Employees have a right to compete with their former employers. Competitors, as long as their conduct does not give rise to a tortious interference claim, have a right to compete for the services of employees. . . . The common law thoughtfully developed a series of equitable rules that defined the rights employers had in inventions developed by employees. Over the last several decades, employers have taken to utilizing trailer clauses as a primary protection device. Concomitant with the increased use of trailer

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clauses by employers is an increased judicial acceptance of such clauses.

The thoughtfully developed common law rules offer the employer a great deal of protection while looking out for the interests of the employee and society in general. Trailer clauses abrogate the common law and eviscerate the protections for employees which the common law established in the public interest. Society's interest in encouraging invention and fostering competition mandates a judicial declaration voiding trailer clauses ab initio.55

The same author has also insisted that trailer clauses, by their very nature, run contrary to the purpose which patents were designed to protect, stating that "[i]f the purpose of patents is to encourage invention by granting an inventor a twenty year monopoly, thereby enabling him to exploit the fruits of his creative endeavors, does the enforcement of an employment contract's trailer clause abrogate this purpose?"6

In short, much of the commentary surrounding trailer clauses has encouraged interpreting invention assignments in a light more favorable to employees. In this Article, the opposite position will be taken, albeit indirectly. This Article will argue that the current test (for invention trailers) is misguided because it is based on factors such as temporal and territorial constraints. Although those criteria are relevant to competition and the solicitation of an employer's clients, these factors were not conceived to enforce employee invention clauses. In particular, the time and territorial reasonableness factors are not adapted to the needs of employers or employees within the inventions framework.

1. The Time Variable. Concededly, the "time" variable is relevant to the enforceability of non-competition covenants because it shields the employer's legitimate interests from employee competition and prevents solicitation of the employer's client base. The reasonableness of the time variable is equally crucial because an employee cannot be restrained from competing eternally.

Yet, while time is useful in non-competition analysis, it is a misplaced variable when applied to inventions. Time is only relevant to inventions if a patent has been assigned to an employer and will expire on a particular date. If no patent has been issued on the employee's invention or the invention does not yet exist at termination, time is not a relevant concern. This is because the assignment of an existing or future invention is generally a thing of permanence. Employers would

55 Id. at 206-10, 212.
56 Id. at 188.
not bother to seek invention assignments if they could be declared void within a reasonable time after termination.

Thus, because time has no place in the legal analysis of invention assignments, it follows that an assignment of future inventions, even permanent, should be deemed reasonable according to our theory.57

In sum, if an unlimited-duration inventions clause is always reasonable (due to the nature of inventions), it is only logical that the time factor should be removed from the trailer clause enforceability test entirely.

2. The Territorial Scope Variable. A similar argument can be made about the territorial scope variable which the courts currently borrow from non-competition law and import into invention assignments. Admittedly, it may be unreasonable for an employer to enforce a non-competition covenant which prevents its employee from competing within the employer’s entire state.58 A worldwide restraint on employee competition would almost certainly be void as unreasonable.59 While the courts insist on applying this same geographic reasonableness to trailer clauses (out of concern that “covenants which restrict employment are against public policy,”60 and “closing the doors of employment”61), these concerns are illegitimate for invention covenants.

There is a strong argument to be made that, in invention covenants, even a worldwide restriction should be deemed reasonable under the prevailing test. If an employer-assigned invention is patentable, its eventual patent would be effective across the United States. The patent may even be effective in other countries if applications were made abroad. Thus, a patent itself operates like a nation-wide (and sometimes world-wide) restriction on another’s use of an invention. If an employer has obtained a national patent for that invention, why should the assignment clause be limited to the employer’s metropolitan area? If a trailer clause were drafted so narrowly in geographic scope, it would be useless to the employer since there would be no possibility of ever obtaining a patent. An employer cannot patent what it does not own beyond the city limits. This

57 By contrast, a permanent restraint in the non-competition or non-solicitation field would be held categorically unreasonable, illustrating how greatly post-employment inventing differs from post-employment competition.

Despite the differences between inventions and competition, courts have still not understood that post-employment inventing should not be treated the same as post-employment competition. As the test described in Part II.B.2 shows, the courts continue to apply the same non-competition (time and space) factors to invention covenants, no matter how misplaced they are and how awkwardly they may transfer to invention subject matter. The courts simply do not distinguish one restrictive covenant from another, no matter how different they are.

61 Guth v. Minn. Mining & Mfg. Co., 72 F.2d 385, 388 (7th Cir. 1934).
example further demonstrates how the courts have misapplied non-competition criteria to the very different subject matter of inventions. The cases cited in Part II.B.2 illustrate this questionable approach.

Because a nation-wide territorial restriction on reproducing an invention should, hypothetically, be reasonable, it is only logical that the territorial scope variable should not apply to inventions at all. This variable is well-adapted to any other type of restrictive employment covenant, but is clearly not suited to future or present invention assignments.

3. Justification for Broader Constraints. For the reasons stated, temporal and territorial reasonableness are misused variables in the inventions context. Yet even if they were appropriate, broader time and territorial constraints would be justifiable because employers typically have more at stake in preventing the loss of their inventions than in preventing employee competition. Many companies' livelihoods depend upon their ability to sell and market one particular invention which they own. Without that invention, the company could not survive.

By contrast, the potential losses to a company are less significant if an employee competes with it, thus justifying narrower time and territory constraints. This is because employees who choose to compete in the same field as their employers generally obtain employment with existing competitors of their employers. In so doing, they pose a relatively insignificant risk of damaging the former employer's business. It is much less frequent that a former employee actually begins his own competing business and introduces a new direct competitor into the former employer's market.

In short, even if the non-competition factors of temporal and territorial reasonableness could rationally be applied to invention ownership, the scope of either one could be drafted more broadly than in a non-competition clause and still meet the reasonableness standard.

B. PROPOSALS FOR REFORM

As the foregoing suggests, the courts' inability to distinguish analytically between invention covenants and non-competition covenants is discouraging for employers. Admittedly, both types of covenants have the surface appearance of similar terms, including a time limitation, a subject matter limitation, and a territorial limitation. They share the common feature of being restrictive covenants in employment. Some courts have gone so far as to call invention trailer clauses "covenant[s] not to compete,"62 which only reinforces the

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confusion. Yet, apart from these few elements, invention trailer clauses have little in common with non-compete provisions.

Having emphasized this distinction, there is nonetheless one common element which can be used in an enforceability test for both non-competition and future invention covenants: the "subject matter reasonableness" criterion. Whether the subject matter of the covenant is reasonable constitutes a valid area of inquiry for both types of clauses. In fact, for inventions clauses, subject matter is arguably the only crucial and defining element of the reasonableness test. The balancing test explained in Part II.B.2 could not be effectively performed in the absence of subject matter considerations.

In a trailer clause, a future inventions assignment will not be enforceable if its field of inventive subject matter is so broad that an employee would be prevented from seeking future employment. This is a legitimate interest from which an employee deserves protection, unlike time and territory which are irrelevant restrictions to the inventions field. A properly drafted future inventions covenant would be limited to the type of product the employee was expected to work on when hired. It should be phrased as specifically and narrowly as possible to avoid overbreadth and, consequently, a finding of voidness.

Under this standard, a trailer clause is almost certainly enforceable if limited to the minute scope of the employer's operations and clientele, and drafted not to encompass similar devices developed by competitors. Such a narrowly-tailored restriction would permit the employee, upon departure, to have a range of employment options available for his particular skills and knowledge. The availability of post-employment options to the employee is, according to some courts, the overriding concern in the enforcement of restrictive covenants.

To illustrate, the subject matter scope of the Guth trailer clause was not drawn narrowly enough to suit this purpose. There the covenant was drafted to grant the employer an undeserved number of future invention rights unrelated to the covenantor's precise work for the employer. The clause covered any future invention "relating to any subject matter with which my work for said company is or may be concerned." The clause was phrased to construe the company's range of activity as broadly and vaguely as possible and, on this basis, was declared unenforceable. The court insisted that "[u]nder this contract [the employee] was, however, if he worked in another laboratory or for another manufacturer,

63 Guth, 72 F.2d at 388.
64 Id.
66 Guth, 72 F.2d at 387.
67 Id. at 388.
required to assign his discoveries to [his former employer]. This would effectively close the doors of employment to him." \(^{68}\)

Because subject matter is the only truly relevant factor of the three, the test proposed for trailer clause enforceability is one primarily based on subject matter reasonableness. In addition, the test advocated here would incorporate the further element of a balancing test used by a limited number of courts in their examination of invention trailers. \(^{69}\) The balancing element is crucial because, although susceptible to arbitrariness, it permits a court to concretely weigh the importance of the employer's interests and to gauge whether the employer would objectively suffer a hardship greater than the employee's if its operations were prejudiced by an invention. The balancing test would also account for the employee's future employment limitations resulting from the invention and the assignment clause.

At present, the balancing element serves as a final prong in the tests which some, but not all, courts apply to trailer clause enforceability. This balancing test has been described as follows: "In determining [the trailer clause's] reasonableness, an attempt should be made to weigh the competing interests of employer and employee and to give full consideration to the public interest." \(^{70}\) According to the Supreme Court of New Jersey in \textit{Ciavatta}, the employer’s interests in this balancing test will generally weigh more heavily than the employee’s when a proprietary interest is at stake. \(^{71}\) By "proprietary interests," the \textit{Ciavatta} court was referring to "trade secrets or confidential information" and, arguably, the confidential information constituting an invention as well:

Plainly, the court must balance these competing interests. In cases where the employer’s interests are strong, such as cases involving trade secrets or confidential information, a court will enforce a restrictive agreement. Conversely, in cases where the employer's interests do not rise to the level of a proprietary interest deserving of judicial protection, a court will conclude that a restrictive agreement merely stifles competition and therefore is unenforceable. \(^{72}\)

\(^{68}\) \textit{Id.} \\
\(^{70}\) \textit{Universal Winding}, 108 F. Supp. at 332. \\
\(^{71}\) Ingersoll-Rand Co. v. Ciavatta, 542 A.2d 879, 892 (N.J. 1988). \\
\(^{72}\) \textit{Id.} (citations omitted).
However, the balancing test will reject any subject matter restriction not absolutely necessary to protect the employer’s interests:

[W]e will enforce holdover agreements to the same extent that we will enforce similar post-employment restrictive agreements, giving employers “that limited measure of relief within the terms of the noncompetitive agreement which would be reasonably necessary to protect his ‘legitimate interests,’ would cause ‘no undue hardship’ on the employee, and would ‘not impair the public interest.’”

At the same time, the balancing test must also account for whether the employee would suffer a hardship outweighing the employer’s own, most notably upon losing the right to pursue his true research expertise: “[C]ourts must evaluate the reasonableness of holdover agreements in light of the individual circumstances of the employer and employee. Courts must balance the employer’s need for protection and the hardship on the employee that may result.”

In summary, the test proposed here would vastly simplify the courts’ current trailer clause analysis, the recommended approach being reduced to a subject matter balancing test with the time and territory prongs eliminated.

1. Relationship with Confidential Information Covenants. It is conceded that the test proposed here has greater affinity to the enforceability test for confidentiality clauses than for non-competition covenants. Although the courts are far from unanimous in this respect, many enforce confidentiality agreements by tolerating unusually broad (or unlimited) temporal and territorial constraints. In fact, a few judges have observed that time and territory restraints are relevant only for non-competition agreements, and have no place in the analysis of confidential information clauses. The following remarks were made by the Supreme Court of Iowa in a case involving a trailer clause promising “not to disclose . . . inventions,” and “[to] assign . . . title [to inventions] . . . to the Company,” and “not [to] disclose . . . confidential information”:

73 Id. (citations omitted) (emphasis added).
74 Id. at 894 (emphasis added).
75 At the same time, there is no unanimity that confidential information restrictive covenants should be analyzed in this manner. Some courts are so accustomed to applying non-competition principles to any restrictive covenant that this trend has been carried over into their analysis of confidential information clauses too. For instance, the following cases have insisted on considering the temporal and territorial reasonableness of confidential information covenants: Nalco Chem. Co. v. Hydro Tech. Inc., 984 F.2d 801, 803 (7th Cir. 1993); State Med. Oxygen & Supply, Inc. v. Am. Med. Oxygen Co., 782 P.2d 1272, 1274 (Mont. 1989); Cent. Monitoring Serv., Inc. v. Zakinski, 553 N.W.2d 513, 515 (S.D. 1996).
Nondisclosure-confidentiality agreements enjoy more favorable treatment in the law than do noncompete agreements. This is because noncompete agreements are viewed as restraints of trade which limit an employee's freedom of movement among employment opportunities, while nondisclosure agreements seek to restrict disclosure of information, not employment opportunities. The distinction is based on the idea that "once a secret is disclosed, knowledge of the information cannot normally be confined to a particular area." Thus, imposition of geographic or durational limitations "would defeat the entire purpose of restricting disclosure, since confidentiality knows no temporal or geographical boundaries." Thus, nondisclosure agreements lacking in geographic or time limitations have been held to be enforceable. 76

On the basis of this reasoning, the court concluded that "the absence of restrictions concerning time or geographic location do not render a nondisclosure-confidentiality agreement presumptively unenforceable." 77 Other courts, including the 7th Circuit Court of Appeals, have followed the same reasoning, stating as follows:

The confidentiality agreement is also not invalid for want of a time limitation. See 765 ILCS 1065/8(b)(1) ("[A] contractual or other duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of durational or geographic limitation on the duty."). Nor is there any question that the confidentiality agreement covers much of the information PepsiCo fears Redmond will necessarily use in his new employment with Quaker. 78

The test proposed in Part III.B is reasonable in light of this additional information. Arguably, invention covenants are more closely related to confidentiality agreements than to non-competition covenants. Because this is so (and in light of the judicial reasoning cited above), a court decidedly must not consider time or territory constraints when reviewing the enforceability of an inventions trailer clause.

77 Id. at 762.
78 PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1272 n.10 (7th Cir. 1995).
This may be contrary to the impression most courts convey by basing their enforceability tests for invention covenants on the non-competition model. However, confidential information and trade secrets are the underpinnings of inventions. When entering into an inventions trailer, it is both the confidential information and the actual invention which the employee is restricted from reproducing for a subsequent employer, since the confidential information is arguably part of the invention.

One could argue that a trailer clause serves simultaneously as an invention assignment and as a non-disclosure restriction. That is to say, an invention assignment provision cannot be divorced from the confidential information underlying the invention itself. Inventing in violation of a trailer clause is more analogous to the expropriation of confidential information than setting up a business to compete with one’s employer. This analogy supports our rationale that the best test of trailer clause enforceability should resemble that used for confidential information/trade secret enforceability (rather than the less relevant non-competition test), even though this may run contrary to the practice followed by most courts.

Indirectly acknowledging this correlation, the 9th Circuit Court of Appeals has noted that inventions (or corresponding patents) may be “based upon” confidential information, though this question remains unresolved. The 9th Circuit’s observation arose from an employee’s invention made in violation of a confidential information restriction: “The district court concluded that the invention disclosed in the patent was not ‘based upon’ Mincom’s confidential information, and therefore need not be assigned. . . . However, the district court found that the inventions disclosed in the two patent applications were ‘based upon’ Mincom’s secrets, and ordered assignments.”

IV. CONCLUSION

It is now common practice for employers to impose catch-all clauses on their inventing employees at the time of hire. Rarely are these agreements simple non-competition covenants. Rather, they tend to incorporate additional clauses governing the assignment of current and future inventions, the disclosure of confidential information and trademarks, and a ban on solicitation of the employer’s clients. Concurrent with this trend toward comprehensive employment agreements, the courts’ analysis of trailer clauses has become

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79 All cases cited in Part II.B.2 have taken this analytical approach.
80 This includes all cases discussed in Part II.B.2.
81 Winston Research Corp. v. Minn. Mining & Mfg. Co., 350 F.2d 134, 146 (9th Cir. 1965) (emphasis added).
indistinguishable from its analysis of all other restrictive covenants. The courts have not paused to question whether the non-competition test is appropriate for invention assignment clauses. Instead, they have proceeded relentlessly to apply the test they are most familiar with and which, on the surface, appears most analogous.

While harmonizing employment agreements to simultaneously encompass the elements of non-competition, non-solicitation, future inventions, current inventions, non-disclosure of confidential information, and trade secrets, the danger of this approach is the potential merging of analytical methodologies into a single formula for the entire agreement, rather than a clause-specific analysis for each type of covenant. In terms of drafting techniques, harmonizing all provisions into one document (with the same temporal and geographic restrictions shared by each clause) may have contributed to the one-size-fits-all approach which courts have adopted for non-competition clauses and trailer clauses alike.

In order to reverse this prevailing trend, this Article proposed an invention-specific approach to gauging the enforceability of trailer clauses. This approach rejects the application of temporal and geographic “reasonableness” to trailer clauses, and replaces those constraints with a balancing test based on subject matter alone. It promotes trailer clauses that are finely-tuned to the employer's inventive subject matter. This approach also takes into account the nature and purpose of an employee's invention assignments, rather than construing them as a form of illicit competition. Furthermore, this approach has the potential to balance what is at stake for both employers and employees and, most importantly, does so in an invention-specific manner.