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Employee proprietary information and inventions assignment agreements: what they do, and what could happen without them

The typical onboarding process for a new employee at nearly all companies in most industries includes a requirement for the employee to sign an agreement regarding confidentiality and ownership of inventions, copyrights and other intellectual property. This article explains the purpose of such an agreement and consequences that result from a failure to have such agreements signed by each employee.

What is a PIIA?

The agreement goes by many names, but tech-savvy companies often refer to them as PIIAs (or "Pee-as" for short). PIIA is the acronym for the most common name for these agreements, "proprietary information and invention assignment" agreements. The typical form of agreement addresses two main areas: confidentiality and ownership of intellectual property.

The agreement requires that an employee maintain the employer's non-public and proprietary information confidential and contains language similar to what you would see in a non-disclosure agreement (see more about non-disclosure agreements).

The agreement also requires that the employee agree that whatever the employee creates, discovers, develops or invents while employed with the company is owned by the company. Companies that are in the business of developing products or technology that are protectable by copyright (as is the case with most software companies) can rely on the work for hire doctrine under US copyright law, which automatically gives the employer ownership of copyrights in works of authorship (*eg*, software, manuals and documentations) written or prepared by an employee within the scope of his/her employment. The work for hire doctrine, however, does not apply and ownership is not automatically vested in the employer in the case of other intellectual property rights, most notably in the case of patents (see our article providing an overview of intellectual property rights and a more detailed discussion about copyrights and patents).

Therefore, the PIIA is the employee's agreement that everything created by the employee for the employer is owned by the employer, and if the employer needs the employee to do anything or sign any document to confirm that the employer owns all the rights in the intellectual property developments, the employee agrees in the PIIA to do so.

PIIAs will also often include non-solicitation clauses and, for those employees working in states where non-competition clauses are enforced, the agreement may also include a non-compete clause (see our article discussing non-solicitation and non-competition clauses).

Does the company really own *everything* the employee creates?

If an employee can show that he or she created intellectual property on their own time and without the use of ***any*** of the employer's facilities, equipment, supplies or trade secret information and ***if*** the intellectual property ***did not*** relate at the time of development to the employer's business or actual or anticipated research or development, then the employee would continue to own such intellectual property.

In some states, such as California, Washington, Texas and Illinois, this exception is expressed in a statute that requires that the PIIA include a notice of the exception. Such statutes favor the employer in that the burden of showing the exception applies is typically on the employee.

What happens if I don't have my employees sign PIIAs or if the PIIAs don't include all the bells and whistles?

Whenever a company goes through a financing, whether it is a seed round or an institutional VC round, or if the company is going to be acquired, the investors or acquirer will conduct due diligence. One of the issues that they will review is whether or not all the employees have signed PIIAs and whether or not those PIIAs require employees to assign to the company ownership of all intellectual property rights to developments created by the employee. Investors and acquirers want to make sure that the company owns its intellectual property, products and technology.

Depending on where the company is in its lifecycle, the due diligence may focus on all employees, former and current, or it may just focus on the former and current employees that have been involved in research and development or engineering activities. (The failure of the company to obtain a PIIA from an employee strictly in an administrative capacity will generally not create a material issue). If due diligence identifies a problem with the PIIAs, or reveals that PIIAs were not signed, investors and acquirers may require that the company obtain signed PIIAs (or the equivalent) after the fact, which may necessitate the company having to pay the employees something in exchange for signing the agreement so that it is binding or, worse yet, give a former employee leverage to ask for something more. Giving someone leverage on the cusp of a financing or an acquisition may not end well for the company.

While PIIAs may seem like a routine document that is available from numerous online sources, it is essential that an employer have a form of PIIA that includes provisions that is enforceable and current and will withstand scrutiny from investor and acquirer's counsel. If you have questions about your form of PIIA, or if you want to make sure that you have forms of PIIA that will be enforceable for your employees wherever they may be located, within or outside the United States, please contact a member of our Technology, Data and Commercial practice.
