

# Knobbe Martens

Knobbe Practice Webinar  
Series: Strategic  
Considerations for Employee  
and Vendor Agreements Part I

April 18, 2022

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# Overview of Employment and Vendor Agreements

# Overview of Employment Agreements

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## General Terms

- Scope of Employment
- Compensation
- Benefits
- Term and Termination
- Best Efforts
- Liability Protection
- Alternative Dispute Resolution
- Breach

## Intellectual Property Based Terms

- Ownership and Assignment
- Restrictive Covenants
  - Confidentiality
  - Non-Compete Clauses
  - Non-Solicitation
  - Anti-Poaching Clauses

# Overview of Vendor Agreements

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- Defining the Scope
- Information Flow and Confidentiality
- Ownership of IP and Assignment
- Residuals and Feedback
- Term and Termination
- Granted Licenses
- Relationship to Other Agreements
- Breach
- Third Party Access
- Disclaimers and Indemnification
- No Formation of Partnerships
- Prohibitions Against Poaching



# Key Intellectual Property-Based Terms in Employee and Vendor Agreements – Scope and Assignments

# Definition of Scope (Employment or Vendor Project)

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## Key Considerations

- Definitions of Confidential Material and Assignment obligations are dependent
- Broad, general definition of scope will provide the most protection for Employer/Customer
- Overly broad definition of scope could create potential issues for Employee/Vendor
  - Increased management of received data
  - Increased potential for disputes for tangential data
  - Increased scope of granted licenses and residuals

## Strategic Decisions

- Is the information flow bi-lateral or unilateral?
- Will the Vendor Agreement cover a specific project that is well defined or intended to cover future, undefined projects?
- Will the parties engage in additional contracts for future projects?

# Work for Hire and Assignments

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## Key Considerations

- Employees - Assignments:
  - An assignment agreement is a catch-all that states an employee who creates products, methods, or any other work that is ripe for intellectual property protection as part of employment automatically assigns ownership to the employer. In this way, the employer owns the creation and the underlying intellectual property at the outset.
  - Key Consideration: Creation was made using company equipment, funds, or on company time.
- Vendors/Contractors/Employees – Work for Hire
  - A work for hire is a separate clause that obligates an individual/corporation to assignment any individual rights that by default would otherwise be granted to the creator. Typically applies for copyrights. Should supplement any assignment clause.

## Strategic Decisions

- Wording is important – obligation to assign vs. assignment
- Consider notification/reporting requirements – who is obligated to identify subject matter
- Part II Discussion – Confirmatory Assignments, Pre-Existing IP and Right of First Refusal

# Residuals/Feedback

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## Key Considerations

- Ownership/license to residuals highest potential for future disputes if not addressed
- Complete ownership for receiving party most effective for non-solicited feedback/suggestion
- Potential conflict with disclosing party and pre-existing IP

## Strategic Decisions

- Can specific employees receive guidance regarding feedback/suggestions?
- Can receipt/transmission of feedback be documented?

## Key Intellectual Property-Based Terms in Employee and Vendor Agreements – Restrictive Covenants

# Restrictive Covenants – Non-Compete Clauses

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## Key Considerations

- “Non-competes” prevent an employee from taking a position with the employer’s competitor, investing in a competitor, or establishing a competing business during employment and for a certain time afterward.
- The non-compete must be reasonable in time and geographical scope to be binding;
  - A conservative non-compete might be for no more than one year after employment – very state dependent
  - Geographic scope restrictions may be better suited based on physical attributes of businesses
- If your non-compete is aggressive, you may want to include a severability clause in your contract.

## Strategic Decisions

- Consider what may be the defined scope of current employment and what “competing” employment may look like
- Choice of law may have some impact

# Restrictive Covenants - Prohibitions Against Solicitations

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## Key Considerations

- Anti-solicitations may be an extension/substitute of the non-compete. It prevents an employee from soliciting, discussing, or accepting employment for competing business from another agent or employee of the employee.
- Standard term for prohibition is one year
- Disclaimer regarding general employment

## Strategic Decisions

- Will there be key employees that are likely to interact with other party?
- May be a good alternative if non-compete is not desired

# Restrictive Covenants - Prohibitions Against Poaching

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## Key Considerations

- Many agreements include some form of prohibition against hiring employees interacting with other companies – may be key for a vendor relationship
- Standard term for prohibition is one year
- Disclaimer regarding general employment

## Strategic Decisions

- Will there be key employees that are likely to interact with other party?



# Restrictive Covenants – Confidentiality Clause

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## Key Considerations

- Almost all Employment and Vendor Agreements include confidentiality clauses to preserve trade secret information and intellectual property rights
- Employee agreement should be very broad definition of Confidential Information and should cover information in any form
- Vendor Agreements may be more tailored to the type of information flow/exchange
- Employer/Customer should have a comprehensive approach for documenting confidential information and access if possible

## Strategic Decisions

- Will there be key employees that are likely to interact with other party?
- What type of training and monitoring can Employer/Customer implement?
- What type of documentation regarding information access can be maintained?

# Key Intellectual Property-Based Terms in Employee and Vendor Agreements – Term and Termination

# Term and Termination

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## Key Considerations

- Term of most Employee Agreements will run for the duration of employment.
- Term of the Vendor Agreements selected based as appropriate based on the relationship of the parties; intended scope of the projects; contractual preferences of parties; etc.
  - One-year terms with automatic renewal is a typical best practice
- Confidentiality obligation will typically survive the termination of the Employee and Vendor Agreements – in perpetuity for trade secret protection
  - Potential conflict with duty to preserve information and standard document retention policies
  - Carve out trade secrets from any expiration of duty to maintain information confidential

## Strategic Decisions

- Vendor Agreements: Is it better to define term to specific project or define a general term to encompass entire project?
- Will the parties engage in additional contracts for future projects?

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Considerations for Employee  
and Vendor Agreements Part II

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# Overview of Employment and Vendor Agreements

# Overview of Employment Agreements

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## General Terms

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- Liability Protection
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## Intellectual Property-Based Terms

- **Ownership and Assignment**
- **Restrictive Covenants**
  - Non-Compete Clauses
  - Non-Solicitation
  - Anti-Poaching Clauses
  - Confidentiality

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# Intellectual Property Assignments and Work for Hire

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## Key Considerations

- Employees – Intellectual Property Assignments
  - An assignment agreement is a catch-all that states an employee who creates products, methods, or any other work that is ripe for intellectual property protection as part of employment automatically assigns ownership to the employer. In this way, the employer owns the creation and the underlying intellectual property at the outset.
  - Key Consideration: Creation was made using company equipment, funds, or on company time.
- Vendors/Contractors/Employees – Work for Hire
  - A work for hire is a separate clause that obligates an individual/corporation to assign any individual rights that by default would otherwise be granted to the creator. Typically applies to copyrights. Should supplement any assignment clause.

## Strategic Decisions

- Wording is important – obligation to assign vs. present assignment of future IP
- Consider notification/reporting requirements – who is obligated to identify subject matter

# Intellectual Property Assignments – Confirmatory Assignments

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## Key Considerations

- Employees – Confirmatory Intellectual Property Assignments
  - A confirmatory assignment can be executed upon the preparation/filing of patent applications or copyrighted work.
  - A confirmatory assignment can also be executed upon continued prosecution of patent applications, such as continuations, continuations-in-part, divisional applications, etc.
  - Sequential assignments should be designated as “confirmatory” or otherwise acknowledge the potential for previous assignment of rights

## Strategic Decisions

- Is the Employment Agreement an active grant of rights to intellectual property?
- Are there key stakeholders named as inventors that may leave or leaving the company?

# Intellectual Property Assignments – Right of First Refusal/Step-In Rights

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## Key Considerations

- Employees/Vendors – Right of First Refusal
  - If Employer chooses not to pursue IP, Employee/Vendor may have Rights of First Refusal
    - Identify process/mechanism for identifying opportunity
    - Specify rights granted (if any)
    - Specify cost sharing/burden
  - Employees/Vendors – Step In Rights
    - If Employer does not wish to continue pursuing IP rights or pay required maintenance fees, Employee/Vendor may have ability to “step in” and
      - Specify retained rights (e.g., license)
      - Specify previous cost allocation
      - Specify future cost sharing/burden

## Strategic Decisions

- Policy decision – Does the company want to allow IP to continue to develop if it is outside the scope of its own IP program?

# Ownership of Pre-Existing IP

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## Key Considerations

- Definition of pre-existing IP and retained ownership is typically a carve-out to intended ownership and license grants
- Jointly owned IP - Vendor Agreements
- Relationship to Assignment clauses in Employee Agreements and Vendor Agreements

## Strategic Decisions

- Does Employee have to identify any pre-existing IP?
- For identified pre-existing IP, can Employee continue to own, prosecute and license?
- For identified pre-existing IP, can Employee license to Employer?
- Who will/should own IP developed?

# Residuals/Feedback

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## Key Considerations

- A residuals clause generally provides that any of the Confidential Information of the Customer that the Vendor learns or is given access to, and that is retained in the Vendor's "unaided memory," may be used or disclosed, regardless of the confidentiality or non-use restrictions in the agreement
  - Ownership/license to residuals highest potential for future disputes if not addressed
- Complete ownership for receiving party most effective for non-solicited feedback/suggestion
- Potential conflict with disclosing party and pre-existing IP

## Strategic Decisions

- Can specific employees receive guidance regarding feedback/suggestions?
- Can receipt/transmission of feedback be documented?

# Residuals/Feedback - Example

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## Example Residual Clause

- Notwithstanding any other provision of this Agreement, a receiving party shall be free to use the residuals resulting from access to or work with any Confidential Information provided hereunder for any purpose. The term “residuals” means information in non-tangible form, which may be remembered by persons with access to the Confidential Information, including ideas, concepts, know-how or techniques contained therein, in their unaided memories (without reference to the Confidential Information). A receiving party shall not be obligated to limit or restrict the assignment of such persons or to pay royalties for any work resulting from the use of residuals.

## Example Feedback Clause

- You may provide feedback to Discloser regarding the Confidential Information. Unless Discloser otherwise agrees in writing, You hereby agree that Discloser shall own all feedback, comments, suggestions, ideas, concepts and changes that You provide to Discloser and all associated intellectual property rights (collectively the "Feedback") and you hereby assign to Discloser all of Your right, title and interest thereto. You will not knowingly provide Discloser any Feedback that is subject to third party intellectual property rights. You agree to cooperate fully with Discloser with respect to signing further documents and doing such other acts as are reasonably requested by Discloser to confirm that Discloser owns the Feedback and to enable Discloser to register and/or protect any associated intellectual property rights and/or confidential information.

# Exceptions to Confidentiality Obligations

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## Key Considerations

- Typical Exclusions (must include):
  - Court order
  - Publicly known information
  - Independently developed
  - Learned from a third party under no obligations to disclosing party

## Strategic Decisions

- Does the company have a way of documenting and managing Confidential Information?
- Does the company have a way of documenting and preserving information regarding independent development or received third party information?
- Do the exclusions require some form of notification provision?

# Breach

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## Key Considerations

- Available remedies for breach:
  - Injunctive relief – stop further offending behavior until a hearing can be had on the merits
  - Monetary damages – recover money losses caused by the breach
  - Unjust enrichment – for trade secrets, these damages allow recover the amount by which the breaching party profited
  - Punitive damages – punish bad behavior in the instance of egregious situations
- Defenses
  - No breach – the subject of the NDA was not secret or in the public domain
  - NDA is overly broad – go too broad and the NDA can be ruled unenforceable/void for vagueness
  - Hypothetical loss – no proof of quantifiable damages

## Strategic Decisions

- If discloser – receiving party should acknowledge in writing that a breach would cause irreparable harm
- If discloser – include an estimate of what damages might be as agreed liquidated damages
- Consider a loser-pays scenario for enforcement (if realistic for other side to be able to pay)



# Relationship to Other Agreements

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## Key Considerations

- Ensure that Employee Agreements/Vendor Agreements do not supersede or get superseded by other agreements
- Clarify that neither party is agreeing to the potential relationship by signing it, and instead, its purpose is only to afford the parties protection against misuse of confidential information exchanged

## Strategic Decisions

- Have other agreements between the parties already been made?
- What other agreements may be executed between the parties in the futures?

# Third Party Access

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## Key Considerations

- Standard to include known service providers that may be necessary to examine information (e.g., accountants, attorneys, IT staff, etc.)
- May be good practice to identify specific third parties that can be bound by agreement – possibly include in an Appendix that can be amended

## Strategic Decisions

- Do third parties require access to disclosed information?
- Consider including audit rights or documentation to identify third party access

# No Formation of Partnerships

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## Key Considerations

- Standard to include disclaimer regarding no intention to form partnership or joint venture – if applicable
- Can also include language that submission does not require any form of implementation or commitment to commercialize

## Strategic Decisions

- Will there be any additional language defining the relationship between the parties?

# Other Consideration

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- Publicly Traded Companies:
  - Consultant Agreement (use if own company is publicly traded in the U.S. and subject to regulation by SEC):
    - Regulation FD. Consultant hereby acknowledges that he is aware, and that he will advise his representatives who receive any Trade Secrets or confidential information, that the securities laws of the United States prohibit any person who has material, non-public information concerning the Company from purchasing or selling securities in reliance upon such information or from communicating such information to any other person or entity under circumstances in which it is reasonably foreseeable that such person or entity is likely to purchase or sell such securities in reliance upon such information.
- Export Laws – depending upon the technology and country
  - Require compliance with any such laws (if applicable)

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