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How Cos. Can Mitigate IP Risks After NY Labor Law Updates

By **Anne Li, Katie Aber and Andrew Spitzer** (October 27, 2023, 3:05 PM EDT)


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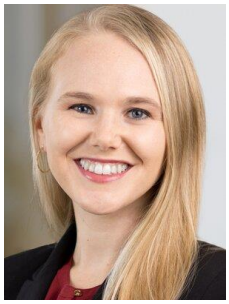
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On Sept. 15, New York Gov. Kathy Hochul signed into law S.B. 5640, a recent amendment to New York's labor law that limits — and renders unenforceable — impermissibly broad invention assignment provisions.

While not entirely unique, this law is a significant change from the status quo for employers and all New York-based employees.

Improperly drafted intellectual property assignment provisions could cause employers to lose out on important innovations that they otherwise may own.

The new risk warrants New York employers to revisit and reevaluate their IP assignment strategies.

In particular, the law states that any agreement requiring an employee to assign, or offer to assign, rights in an invention to the employer does not apply to inventions the employee developed during personal time without using the employer's equipment, supplies or trade secret information.

To the extent an agreement does require such assignment, the provision will be deemed against public policy and "shall be unenforceable."

The law provides exceptions in the following circumstances: (1) an invention relates to the employer's business or actual or demonstrably anticipated research or development of the employer; or (2) the invention results from any work performed by the employee for the employer.

This law takes effect immediately.

This presents a potentially significant change to those employers who (1) have remote employees living in New York; (2) rely on employees to use personal computers or other equipment in the course of their regular work; and/or (3) have employees whose work is often done off-site or on a more ad hoc basis — i.e., no set working hours.

These categories present exceptional risk because the distinction between what is employer time versus employee personal time is blurred to the point where the metes and bounds would be very fact specific.

Making this even more complicated, employers may not find out about any new IP until it has already been filed, the employee has left employment, or worse, disclosed the employer's IP, obliterating protection — even if the disclosure was made under the mistaken belief that the work was done outside the scope of employment.

Training employees on the prior understanding that what they invent belongs to the company presented a clear, bright-line rule that was easy to teach.

Now, employers will need to have regular trainings with employees to discuss what is in versus out as the case law develops.

Employers should also consider updating the employee handbook and other policy documents, and negotiate revisions to employment agreements, for those categories of employees posing especially high risk.

New York becomes the 10th state to pass a law granting additional protections to employees and limiting the scope of permissible invention assignment provisions, along with California, Delaware, Illinois, Kansas, Minnesota, New Jersey, North Carolina, Utah and Washington.

The New York statute substantially mirrors California Labor Code, Sections 2870-2872, with at least three significant differences.

First, the California statute states that an overbroad provision "is against the public policy of this state and is unenforceable."[1] The New York statute, on the other hand, states that an overbroad provision "shall be unenforceable."

The use of "shall" in a statute generally signals that the Legislature intended to create an obligation, whereas the use of "is" is more permissive.

Therefore, the law facially appears to require courts to apply the red pencil doctrine to entirely throw out any provision that requires employees to assign inventions that go beyond the permissive bounds of the statute.

Until the application of the statute is determined in court, New York employers would be wise to double-check their invention assignment agreements to ensure that the language as currently drafted complies with the new statute.

Second, the New York statute omits the notice requirement that is present in the California statute and many other statutes.[2]

Under the California statute,

[i]f an employment agreement ... contains a provision requiring the employee to assign or offer to assign any of his or her rights in any invention to his or her 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 which qualifies fully under the provisions of Section 2870.

The impact of this omission, however, is likely inconsequential — California courts have thus far refused

to punish employers who fail to properly give notice under the statue.[3]

Finally, the New York statute omits any discussion of the burden of proof. The California statute explicitly states that "the burden of proof shall be on the employee claiming the benefits of" the statute.[4] While New York courts may still turn to the California statute and cases for guidance, the omission may signal that the Legislature intended for New York to take a different approach than other states.

So where does this leave employers and out-of-state employers with New York-based employees? There are several key takeaways:

- New York-based employers, or those with New York-based employees, need to review their employment agreements to update the assignment provision so that it comports with the new law.

- Companies that have employees working in research and development should firm up working hours, consider providing laptops or equipment to those employees, and consider what other safeguards are suitable for their industry when determining what work is for the company versus an employee working outside the scope of employment.

- Conduct a training on what constitutes work done for the employer versus the employee's personal time.

- Make sure all the appropriate invention assignment forms for pending patent filings are completed timely and are on file as early as possible in the process.

Stay tuned as the inevitable litigation on the scope of this law unfolds. Given that the IP rights at issue are both state and federal rights, courts across the country may end up weighing in on these disputes.

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Crowell & Moring partner Ira Saxe contributed to this article.

[1] CA Labor Code § 2870.

[2] See, e.g., CA Labor Code § 2872.

[3] See, e.g. WhiteWater W. Indus., Ltd. v. Alleshouse, No. 17-CV-501 DMS (NLS), 2019 WL 4261883, at *4 (S.D. Cal. Aug. 1, 2019), rev'd on other grounds, 981 F.3d 1045 (Fed. Cir. 2020).

[4] CA Labor Code § 2872.