INTELLECTUAL PROPERTY +
LABOR AND EMPLOYMENT LAW
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New NYS Labor Law Shines Light on Employee-Driven Innovation

On Sept. 15, 2023, New York State Gov. Kathy Hochul signed an amendment to a New York Labor Law that would invalidate certain intellectual property provisions in employment agreements, effective immediately. Under this amendment, Section 203-f, any provision in an employment agreement that requires employees to assign the rights to inventions to their employer will now be unenforceable if the invention was developed by the employee using the employee's own property and time. The introduction of Section 203-f has significant implications for employers wishing to secure patent protection of inventions made by employees while under an employment contract. To obtain the best protection possible, it is recommended that New York employers review their employment agreements with respect to restrictions and assignment clauses to ensure compliance with this new labor law.

Section 203-f Protects Companies if the Work is "Related" to the Business

Employers should be aware of two important exceptions in Section 203-f that limit its reach and provide additional safeguards to companies. Specifically, employment agreement provisions requiring an employee to assign their rights to an invention will not apply to inventions that:

> (A) 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
>
> (B) result from any work performed by the employee for the employer.

Under the first exception, employment agreements may require employees to assign over rights to inventions **IF** the invention "relates to" the employer's business, any ongoing research and development (R&D), or any anticipated R&D. Whether an invention "relates to" one of these categories is judged based on the time of the invention's conception or its reduction to practice. "Conception" generally refers to when an invention reaches a certain level of definiteness in the mind of the inventor, whereas "reduction to practice" generally refers to the physical construction of the invention. However, the filing of a patent application for an invention is sufficient to trigger both the conception and reduction to practice standards.

Under the second exception, employees can still be required to assign over rights to inventions **IF** the invention "results from" work performed by the employee for the employer. Unlike the first exception, this exception is not judged based on when the invention was conceived or reduced to practice.

Because New York courts have yet to determine the exact bounds of this newly enacted law and what constitutes "relating to" and "resulting from," it is recommended for all employers to seek guidance in determining whether specific employee-inventions are covered by these exceptions, as well as guidance in proactively addressing these concerns in new employment agreements.

Potential Negative Effect on Current Agreements

It is important for employers to consider whether their employment agreements contain a provision regarding employee inventions that is more restrictive than Section 203-f allows – i.e., does the agreement have a provision that would require an employee to assign to the company any invention invented by the employee regardless of whether the employee was using company time or property? If so, the entire agreement may be unenforceable.

One provision that could save an employment agreement from being entirely unenforceable is a severability clause. A severability clause may render only the provision violating Section 203-f unenforceable, while allowing the rest of the agreement to remain in effect. However, since contract language varies, employers must individually assess their employment contracts to determine if a severability clause is applicable.

With this new law in effect, it is crucial for employers to examine their employment agreements and seek legal advice to determine what level of action is necessary following the passage of Section 203-f.

Protecting Confidential / Proprietary Information

Even if the employment agreement is not entirely unenforceable because of Section 203-f, employers may want to use this opportunity to consider whether their investments in innovation are adequately protected. For example, it is notable that Section 203-f protects a company's trade secrets from being misused by an employee, but there is no protection for the company's confidential or proprietary information. Because not everything qualifies as a trade secret, this potentially leaves companies vulnerable. To adequately protect its confidential and/or proprietary information, employers should consider creating policies that define appropriate use of confidential and/or proprietary information.

Conclusion

Businesses that engage in R&D and have employment agreements governed by New York State law should review their agreements to ensure there are no provisions that are more restrictive than allowed under Section 203-f. In some cases, employers may consider revising or supplementing their existing agreements, especially where the existing agreement is rendered entirely unenforceable because of Section 203-f. Furthermore, Section 203-f is an important reminder for employers that their employment agreements should include provisions protecting the company's confidential and/or proprietary information.

For assistance in reviewing your employment agreements in light of these changes, or for more information about the information presented in this memo, please contact any attorney in Bond's intellectual property practice, labor and employment practice or the Bond attorney with whom you are regularly in contact.

**Special thanks to Associate Trainee Cecily Capo for her assistance in the preparation of this memo. Cecily is not yet admitted to practice law.*

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