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Contract Corner

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New York Widens its Employee Intellectual Property Protections

New York has banned employers from requiring employees to assign inventions or other intellectual property that they develop using their own property and time. The bill is effective immediately and applies to both future agreements and any existing agreements. More specifically, new Section 203-f of the New York Labor Law renders any employment agreement provision unenforceable to the extent it "provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer." The law, however, contains two notable carve-outs. An employee's invention or intellectual property may be assigned to an employer if an employee develops an invention or other intellectual property entirely on their own time without using an employer's equipment, supplies, facilities, or trade secret information if the invention:

- relates 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
- results from any work performed by the employee for the employer.

The law also explicitly states that requiring an employee to assign any of their rights to an invention developed on their own time to an employee is against New York State public policy, elevating the importance of this new legal proscription. However, Section 203-f does not appear to render an entire agreement containing impermissible invention assignment language unenforceable, but rather just the language/provision that violates the new law.

Relief and Remedies Still in Question

The law does not provide a private right of action and does not explicitly reference any remedies other than rendering impermissible language unenforceable, and it remains to be seen whether New York courts will read other relief options into the law. In support of the bill, the NYS Legislature explained that "[o]verly broad contracts can rob employees of their intellectual property" and stronger IP protections, like those contained in Section 203-f, "both protect employees' and increase incentives for innovation." To allay the concerns of the business community, the Legislature cited to California, which "implemented this protection in 2011, and it has not impeded the growth of its tech sector." New York is not alone in emulating California's worker protections; since 2011, Illinois, New Jersey and Nevada, and now New York, have all followed suit to foster innovation and growth.

Looking to the broader employment legislative landscape in the state, we are still waiting to see whether Governor Hochul will sign the ban on employee non-competes passed by the legislature in June, even if she does so in a more limited form. Taken together, the two laws could have wider-reaching impacts.[1]

Though on its surface, 203-f appears to create widespread employee protections, we do not yet know what if any practical implications it will have, largely due to the potentially broad carve-outs exempting employee inventions that relate to the employer's business. In practice, disputes are most likely to boil down to how courts define and determine the 'relatedness' of an employee's invention to an employer's business.

One possibility is that New York courts may cite to an employer's trade secrets as the barometer by which they will determine relatedness. Unlike the rest of the country, New York is one of only two states that have not adopted the Uniform Trade Secrets Act (UTSA) and instead relies on common law, leading to a far narrower definition of what constitutes a "trade secret." In effect, for a company to have a trade secret, New York law requires that it be used continuously in the business' operations. Because of this more limited approach, if courts determine "relatedness" by focusing on an employer's trade secrets, New York may see fewer employer safeguards with respect to employee inventions that relate in some capacity to the employer's work. Alternatively, if New York courts take a broad view of what relates to an employer's business,

the impact of the new law on employees' rights to inventions developed on their own time and with their own resources may be more limited.

With so many questions still lingering as to how New York will implement the new law, all eyes will be on potential litigation that may help define the scope of the provision for other employers.

In light of this new law, employers should review any existing employment agreements, employee handbooks, or other policies that may include invention assignment agreements, and ensure that they remove any language now proscribed by Section 203-f and include the appropriate carve-outs permissible under the new law. Employers should also ensure that any template employment documents are updated to reflect any required changes.

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1. *See* "A Closer Look at New York State's Proposed Ban of Non-Compete Agreements," at *https://www.mintz.com/insights-center/viewpoints/2226/2023-06-23-closer-look-new-york-states-proposed-ban-non-compete*.