

# S.C. Supreme Court Upholds Confidentiality and "Holdover" Inventions Assignment Clauses in Employment Agreement

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In its most significant employment law decision of 2012, *Milliken & Co. v. Morin*, the South Carolina Supreme Court addressed the enforceability of provisions in an employment agreement designed to protect the employer's intellectual property from unfair competition.

The case arose when one of Milliken's research scientists and its team leader for the Advanced Yarns Team resigned to start a company to market a new type of fiber. The scientist had developed the idea for the new type of fiber while working for Milliken, and in the months following his resignation he used the idea he developed at Milliken to invent a new fiber. In the suit, Milliken alleged it owned the rights to the new fiber.

The scientist's employment agreement with Milliken contained a confidentiality clause that prohibited him from using, disclosing, modifying, or adapting any "competitively sensitive information of importance to and kept in confidence by Milliken" for three years after leaving the company.

The agreement also contained an inventions assignment clause stating that any inventions by the scientist, patentable or not, relating to Milliken's business or research – or resulting from work he performed for the company during his employment – were the property of Milliken. The inventions assignment clause had a "holdover" provision stating that such inventions developed within one year after termination of employment also belonged to Milliken. (See the box below for types of provisions in employment agreements that can help protect against unfair competition by former employees.)

Milliken sued the scientist for breach of his confidentiality and inventions assignment covenants (as well as for breach of his duty of loyalty and violation of the South Carolina Trade Secrets Act). The scientist argued these covenants were invalid because they were legally equivalent to non-compete agreements, which are disfavored by the courts and strictly

construed against employers.

The state Supreme Court affirmed a jury verdict for Milliken, ruling that confidentiality and holdover inventions assignment agreements are not the same as non-competes because they do not “restrain trade.” (The jury decided for the scientist on the duty of loyalty and Trade Secrets Act claims.) Confidentiality agreements “seek to restrict disclosure of information, not employment opportunities,” wrote the court. And holdover inventions assignment agreements “do not operate in restraint of the employee’s trade but merely vest ownership of an invention with the entity which ought to have it.”

Therefore confidentiality and holdover inventions obligations should be analyzed under the more lax standard of “reasonableness.” To be reasonable, these restrictions should be “no greater than necessary to protect the employer’s legitimate interests” and they should not “curtail the employee’s ability to earn a living.”

Viewed under the standard of reasonableness, Milliken’s inventions assignment clause passed muster because it expressly excluded from assignment work done without use of Milliken’s resources and on the employee’s own time as long as it did not relate to Milliken’s business or R&D. It also excluded inventions that did not result from any work performed for Milliken. And the one-year holdover was, according to the court, “eminently reasonable.”

The confidentiality clause was reasonable because it encompassed only proprietary information and did not attempt to restrain the employee from using his general skills and knowledge in the future. The three-year limit on the restriction was also reasonable, even though, as the court wrote, “the absence of a time limitation in a confidentiality clause will not automatically render it invalid.”

In *Milliken*, the court made clear it still views non-competes as restraints on trade that will be enforced only if specific criteria are met. (See “Looking to Hire? Be Careful with Non-compete Deals,” for more on the enforcement criteria for non-competes.)

Confidentiality and inventions assignment clauses, including holdover clauses, that are so broad and vague they look like non-competes are likely to be subject to the same strict scrutiny as non-competes. But if written carefully, as they were in *Milliken*, these kinds of provisions are likely to meet the reasonableness standard and to serve their intended function of protecting proprietary information.

## Contractual Provisions That Can Help Protect Against Unfair Competition By Former Employees

- **Confidentiality:** Typically prohibit improper disclosure or use of confidential business information learned during employment. (“Trade secrets” as defined by the South Carolina Trade Secrets Act are protected by that statute.)
- **Inventions assignment:** Typically state that certain inventions developed during employment are the property of the employer.
- **“Holdover” inventions assignment:** Typically state that certain inventions developed during employment and a specified period of time after employment are the property of the employer.

- **Non-solicitation:** Typically prohibit soliciting employees, customers or suppliers of the employer for a specified period.
- **Non-compete:** Typically prohibit competing with the employer for a specified period.

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