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## Recent Federal District Court Ruling Provides Insight Into How To Draft An Enforceable Intellectual Property Assignment Provision In An Employment Agreement

A recent ruling by the U.S. District Court for the Northern District of California provides important insight for employers in how to properly draft intellectual property assignment provisions that comply with California law.

In 2007, Plaintiff Applied Materials, Inc. ("Plaintiff") filed a lawsuit against Advanced Micro-Fabrication Equipment and its China and Asia subsidiaries (collectively "Defendants") alleging misappropriation of trade secrets and unfair business practices. Specifically, Plaintiff alleged that several of its former employees who had gone to work for Defendants had violated the intellectual property assignment clause ("Assignment Clause" or "Clause") contained within their employment agreements with Plaintiff ("Employment Agreements"). The Assignment Clause stated:

In case any invention is described in a patent application or is disclosed to third parties by me within one (1) year after terminating my employment with APPLIED, it is to be presumed that the invention was conceived or made during the period of my employment for APPLIED, and the invention will be assigned to APPLIED as provided by the Agreement, provided it relates to my work with APPLIED or any of its subsidiaries.

Plaintiff alleged that inventions disclosed in several of Defendants' patent applications were conceived by Plaintiff's former employees within one year of the conclusion of their employment with Plaintiff. Accordingly, Plaintiff contended that the inventions belonged to Plaintiff pursuant to the Assignment Clause.

Defendants filed counterclaims seeking a declaratory judgment that the Employment Agreements were unenforceable non-compete agreements under California Business & Professions Code § 16600. Defendants contended that the Employment Agreements violated section 16600 by assigning "any invention" to Plaintiff even if the invention was the result of independent research, development, and investment of the employee personally or his/her new employer. Defendants argued that such an agreement placed an "economic penalty" on Plaintiff's employees for continuing to carry out work in their field.

Plaintiff countered that the Assignment Clause was an appropriate method of protecting its trade

secrets because it did not make assignment of the invention mandatory but merely created a rebuttable presumption that inventions disclosed during the one-year time period were conceived while the employee worked for Plaintiff.

Relying on the plain language of the Assignment Clause, the District Court found that the assignment was mandatory and did not merely create a presumption that a former employee could rebut to retain ownership over the inventions. The Court found that the use of the word "presumed" in the Assignment Clause simply meant that the Plaintiff would presume inventions disclosed during the one year post-employment period were conceived during the period of employment and that based on this presumption, any such inventions would be assigned to Plaintiff. The Court emphasized the fact that the Clause did not state that an employee could rebut the presumption or state how an employee would do so. The Clause failed to mention any set of circumstances under which a former employee could retain ownership over an invention disclosed during the one year post-employment period.

Having found that the Assignment Clause contained mandatory language requiring the assignment of any invention disclosed within one year of leaving Plaintiff's employ, the Court addressed whether the Assignment Clause violated California prohibition on employee non-compete agreements. Assignment clauses function as unlawful non-compete provisions where they require an employee to assign an invention conceived after departing from an employer's service. However, such clauses are enforceable to the extent they "relate to ideas and concepts which were based upon secrets or confidential information of the employer..." Armorlite Lens Co. v. Campbell, 340 F. Supp. 273, 275 (S.D. Cal. 1972).

The Court ruled that the Assignment Clause at issue was an unlawful non-compete provision because the scope was not limited to inventions based on Plaintiff's confidential information. The Assignment Clause was overly broad with respect to subject matter and temporal scope: "Since the Court finds that the Assignment Clause touches post-employment inventions, regardless of when they were conceived or whether they were based on Applied's confidential information, the Clause necessarily operates as a restriction on employee mobility."

The Court's ruling is important for two reasons. First, it reiterates that in order to have an assignment provision within an employment agreement enforced under California law, it is imperative that the provision relate to ideas and concepts which are based upon secrets or confidential information of the employer. Employers should tailor the scope of the provision to specifically protect the employer's confidential information. Second, the Court's ruling suggests an alternative means of crafting an enforceable assignment provision that may greatly benefit employers. If the Plaintiff employer in this case had merely created a rebuttable presumption as opposed to a mandatory assignment, the assignment provision might not have violated section 16600. If the assignment clause makes it clear that an employee may rebut the presumption and provides facts and circumstances under which a former employee may retain ownership over an invention, a court is more likely to find the provision enforceable. This potentially benefits employers because it would shift the burden of proof to the former employee to rebut the presumption. Rather than having to prove that the former employee used confidential information, a court would presume that the former employee did so. It would be incumbent

upon the former employee to prove otherwise. While the provision must still not be overly broad, a properly drafted rebuttable presumption provision increases the likelihood of enforceability.