Barbie / Bratz Dispute Highlights Importance of Employment Contract and Policy Language

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Employers commonly require employees to sign contracts that assign all inventions conceived by the employee during employment to the employer. Most employers assume that such agreements effectively provide them with ownership of all intellectual property developed by the employee during the course of his or her employment that relates to the employer's business. A recent decision from the Ninth Circuit Court of Appeals shatters this perception, however, and reinforces the importance of utilizing careful and precise language in employment contracts and policies.

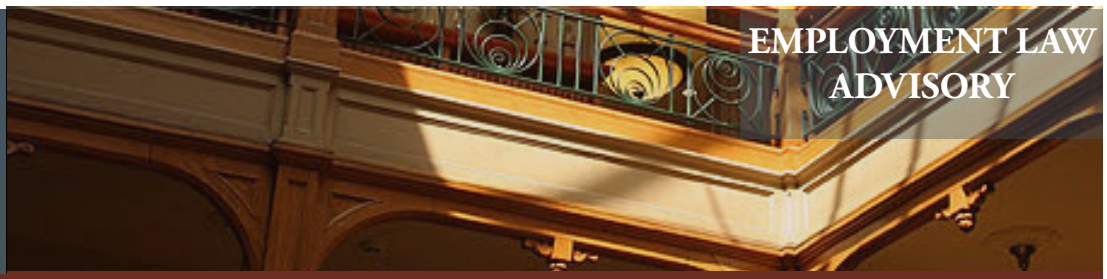
In *Mattel, Inc. v. MGA Entertainment, Inc.*, an employee of Mattel signed a contract which assigned to Mattel all rights the employee might otherwise hold to inventions he conceived during his employment. The contract defined the term "inventions" as including, but not limited to, "all discoveries, improvements, processes, developments, designs, know-how, data computer programs and formulae, whether patentable or not." The definition did not include any reference to ideas, however.

While employed by Mattel, the employee developed an idea for a new line of dolls and presented his idea to a competitor of Mattel. When the competitor expressed interest in the idea, the employee resigned his employment with Mattel and joined the competitor. The new line of dolls, known as "Bratz," were offered for sale soon thereafter and became a top-seller, generating hundreds of millions of dollars in revenue for the competitor.

Predictably, Mattel filed suit against its former employee and its competitor. Mattel prevailed at trial, but the Ninth Circuit Court of Appeals concluded, among other things, that the language of the employment contract was ambiguous and did not clearly transfer ownership of the invention to Mattel. According to the Court, the "inventions" assigned by the employee to Mattel could be interpreted to include ideas that did not exist in tangible form and were not reduced to practice, but the language of the contract did not compel such a conclusion. Rather than affirming Mattel's ownership of the Bratz doll concept, the Court ordered further proceedings to determine whether the parties intended the term "inventions" assigned by the employee to Mattel to include ideas.

The *Mattel* decision is significant for several reasons, not the least of which is its conclusion that an employee's assignment of all inventions conceived during employment may not transfer ownership of his ideas to the employer, even when the ideas relate to the employer's business. Most invention assignment clauses that appear in employment contracts do not clearly identify ideas conceived during employment as one of the forms of intellectual property transferred from the employee to the employer, and therefore may not accomplish their intended purpose in the wake of the *Mattel* decision.

Employers intent on protecting their intellectual property rights (and their rights in general) to the greatest extent possible should review the terms and language of their contracts and policies to assure that ambiguities are minimized or eliminated. At a minimum, employers should assure that their invention assignment clauses include the word



"ideas" within the definition of inventions. If you have any questions about the enforceability of your employment contracts or invention assignments agreements, or any other issue relating to employment law, please contact one of our attorneys:

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