



CALIFORNIA COURTS WILL NOT LET COMPANY RESTRICT EMPLOYEE FROM OWNING INTELLECTUAL PROPERTY DEVELOPED AFTER EMPLOYMENT ENDS VIA ASSIGNMENT CLAUSE IN EMPLOYMENT CONTRACT

SYNOPSIS OF HOLDING:

In Applied Materials Inc. v Advanced Micro-Fabrication Equipment (Shanghai) Co., 2009, WL 1481147 (Northern District California) the federal court in May, 2009, ruled and rejected a company's claim that intellectual property created by a former employee remained the property of the Company based on an assignment clause in the employment contract. The court voided key provisions in the employee contract that purport to assign to employer the rights to inventions created by an employee after their period of employment even if the invention related to work performed for the former employer.

The Court held that the clause violated California law, to wit, California's prohibition on employee non-compete agreements under California Business and Professions Code Section 16600 which invalidates any provision of "every contract by which anyone is restrained from engaging in a lawful profession, trade or business."

The clause in question:

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 this Agreement, provided it relates

to my work with APPLIED or any of its subsidiaries.

While not eliminating the ability of a company to protect intellectual property improperly taken by a former employee, this holding will make the relatively easy method of enforcement via the proper wording in the agreement obsolete. Each company will now have to reevaluate its contracts and cannot rely on the protection of similar clauses in their contracts, whether signed in the past or not.

ANALYSIS:

Advanced Micro-Fabrication Equipment (Shanghai) Co. ("AMFE"), a Chinese company, hired a number of Applied employees and Applied filed suit claiming that inventions described in several AMFE patent applications were property of Applied. The inventions, according to Applied, were produced by its former employees whose contracts contained the above clauses. AMFE argued that California law precluded enforcement of the clauses and prevailed.

The court reasoned that the assignment clauses were in violation of California B and P code 16600.

Note that California law has long held that inventions developed after termination of employment cannot be claimed by the former employer *unless confidential information gained during the employment was utilized*. That remains the law. What this holding does is invalidate clauses creating a blanket presumption that such inventions derive from confidential information.

The court found that the assignment was so broad that it would pertain to any work related invention conceived, whether or not it might have derived from confidential information. The clause was so overbroad as to amount to a "post employment penalty that violates California public policy."

The court was concerned also that the clause sought to involve inventions produced for a period of time that was simply too long. The court ruled that the provisions were "overly broad with respect to...temporal scope."

It is critical to note that the court refused to interpret the clause in a narrow manner but instead voided the entire clause. The court felt that any such narrowing would allow companies to intentionally draft broad provisions, figuring they had nothing to lose since the court would merely restrict them but keep some of the clause in effect. The court, emphasizing the strict California policy against restrictions on competition, stated that not voiding the entire clause would threaten the entire scheme of prohibition. ..."employers would have no disincentive to use the broad illegal clauses if permitted to retreat to a narrow, lawful construction in the event of litigation." The court also felt that the clause constituted unfair competition under California Business and Professions Code Section 17200.



PRACTICALITIES

This case does not give open season to stealing confidential

information. It simply eliminates the short cut presumptions that exist in

many employment contracts and will require the old employer to prove that confidential information was actually utilized, a difficult but not impossible task. It

also clearly states the hostility of California courts to enforcing such clauses and requires the drafter to be particularly careful in creating the structure of protection since crossing the line of permissible clauses by the court can invalidate all protections in the clause, whether legal or not.

Thus each clause must be carefully drafted and any new employer, pondering whether the concept of a newly hired employee is properly exploitable, must obtain advice as to whether the employment clauses are likely to be effective.

One can expect that attorneys will spend the next year or two crafting new wording which will be examined under the microscope of the courts for the next five years.

But the lesson for the employer and employee for now-*check over all your employment contracts since the clause may not only be invalid, but may endanger other clauses in the contract.*