Imagine your company is looking to hire a new VP of Product Management. Your product team interviews Julia, a hotshot engineer brimming with exciting ideas. She shows them a one-page summary for a product line that would mesh really well with your existing business. They ask for your General Counsel’s advice. You confirm that the ideas are Julia’s, and weren’t taken from her former employer. You determine that, while Julia’s former employer is in your company’s general field, it is not a primary competitor.

Last, you make sure she is not subject to a non-compete agreement. You give the team your blessing to hire this creative dynamo.

Over the next two years, your company pours resources into developing the product line sketched out in Julia’s one-pager. The product is wildly successful, generating millions of dollars in revenue, thousands of new customers, and plenty of great press. But then, out of nowhere, you are hit with a lawsuit from Julia’s former employer. The complaint alleges that Julia hatched the “idea” for your new product line — and wrote the one-pager — while it still employed her. The former employer therefore claims that it is the lawful owner of the entire product line and all of its profits, and seeks to enjoin an entire segment of your business. Sounds crazy, right?

Maybe not. Today, many employment agreements, particularly in the tech industry, include a clause assigning to an employer all discoveries, improvements, ideas, processes, developments, designs, know-how and formulae the employee develops while working for the employer,
Minolta, Inc. (Cal. Ct. App. 2014), it is
ideas, see Altavion, Inc. v. Konica
expanded the scope of trade secrets to
include a company’s unwritten business
afforded protection.

However, even if an employee
develops an invention entirely on her
own time, the employer can still demand
assignment if the invention either “relates
at the time of conception or reduction
to practice of the invention to the
employer’s business” or “results from any
work performed by the employee for the
employer.”

In practice, these exceptions mean
that Section 2870 shields very few
employee innovations from assignment.
Indeed, California courts have
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There are good practical reasons
to permit assignment of inventions. At
common law, and in the patent context,
employees by default retain ownership of
their inventions. Without an assignment,
employers would risk losing significant
capital investments with every departing
employee. Less clear, however, is
the justification for permitting the
assignment of inchoate, undeveloped
ideas based on the employee’s general
know-how attained through work in her
chosen field.

Using California law as an example,
this article traces the often-conflicting
treatment of PIIAAs by courts, and offers
suggestions for a general counsel faced
with the situation described above.

CONTRACTING FOR IDEAS
We do not typically think of ideas as
intellectual property. Patent protection
requires a detailed specification and
novel, non-obvious written claims.
Abstract ideas are, by law, unpatentable.
Likewise, while the expression of an idea
can be copyrighted, the idea itself is not
afforded protection.

Although courts have cautiously
expanded the scope of trade secrets to
include a company’s unwritten business
ideas, see Altavion, Inc. v. Konica
Minolta, Inc. (Cal. Ct. App. 2014), it is
uncertain that an employee’s unsolicited
and undisclosed thoughts could qualify
as the employer’s trade secrets.

Even though ideas are generally
not recognized as intellectual property,
California courts have ratified an
employee’s ability to cede them to an
employer by contract. In the seminal case
of Mattel, Inc. v. MGA Entertainment,
Inc. (9th Cir. 2010), defendant Carter
Bryant, a doll designer, had signed an
agreement assigning all discoveries,
improvements, designs, know-how,
whether patentable or not, that he
“conceived or reduced to practice” to
the company. While working for Mattel,
Bryant pitched a new doll concept, Bratz,
to MGA Entertainment and was hired
to help commercialize the idea. When
MGA introduced Bratz, Mattel sued for
complete ownership of the Bratz line
based on Bryant’s assignment agreement.

In determining whether Bryant had
assigned his “idea” for Bratz, the Ninth
Circuit (applying California law) turned
to conventional contract interpretation.
The Court reasoned that, while the
word “idea” did not appear within the
list of things Bryant agreed to assign,
the list did include “know-how” and
“discoveries,” and could encompass
things not embodied in a tangible form
because it covered inventions Bryant
had merely “conceived.” The Ninth
Circuit therefore endorsed the possibility
that something as fleeting as a burst
of inspiration could be subject to a
mandatory contractual assignment.

Much as other states have done via
common law, California has adopted
some statutory limits on the degree to
which employers can assert contractual
control over their employees’ innovations.
California Labor Code § 2870 states
that any PIIAA “shall not apply to an
invention that the employee developed
entirely on his or her own time without
using the employer’s equipment.”

However, even if an employee
develops an invention entirely on her
own time, the employer can still demand
assignment if the invention either “relates
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In practice, these exceptions mean
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Free employee mobility is as
embedded in California culture as surfing
and traffic jams. The state’s statutory
prohibition on restrictive covenants,

whether or not protectable under other
intellectual property regimes. These
provisions are referred to as proprietary
information and invention assignment
agreements (PIIAAs).

If an employee who signed one leaves
to develop a long-germinating idea, the
former employer may attempt to claim
ownership of the competitive business
founded on that idea. Surprisingly, the
relevant case law potentially allows this
result based on expansive notions of
the right-to-contract, even in California,
where non-competes are generally dead
on arrival.
Own Your Brain
codified at Business and Professions Code § 16600, dates back almost 150 years. It is one of the key engines of Silicon Valley’s innovation economy. So great is California’s commitment to unfettered employee mobility that California courts frequently overturn choice-of-law clauses in employment agreements for California employees who seek to invoke the law of a different state where non-competes are more favored.
Courts occasionally have approved non-competes tailored to prevent the former employee’s use of trade secrets, but what about “ideas” that were never the trade secret of the employer?
Section 16600 has been invoked to invalidate PIIAAs that demanded assignment of innovations conceived in the first year after an employee terminated employment. Those courts have reasoned that an assignment of innovations conceived of during her tenure to invalidate PIIAAs that demanded assignment of innovations conceived in the first year after an employee terminated employment. Those courts have reasoned that an assignment agreement targeting post-employment innovations prevents an employee from capitalizing on the professional expertise attained at the previous job to flourish at the next one.
Undecided, however, is whether a broad PIIAA that targets an employee’s ideas conceived of during her tenure might also violate Section 16600. Is an employee who engages in preliminary development of ideas she might wish to develop later any less entitled to use her previous work experience to flourish at her next job? The answer would seem to be no. California law has long protected not only the right to compete, but also the right to make preparations to compete, including seeking other employment or meeting with others to discuss a potential new business. However, California courts have yet to resolve the question.
TIPS FOR GENERAL COUNSEL
What then is a savvy general counsel to do? For starters, you can take the following steps:

- **Perform due diligence.** If a prospective hire subject to a PIIAA approaches your company with a new business idea, make sure you understand when it was developed using what resources. Was this idea worked on during business hours? On a work computer? Was the employee inspired by existing or anticipated developments at her former employer? Did she share the idea with her former company, putting them on notice? Knowing the answers to these questions is essential to determining your exposure.
- **Ditch that one-pager.** If, as in the hypothetical above, a prospective employee comes to you with a presentation of ideas, developed when she was subject to a PIIAA, do not rely on it. Play it safe: Instruct the employee not to bring it with her when she departs, and to start from scratch again when she arrives. Incorporating suspect documents into your ongoing development will only give the former employer ammunition for its PIIAA claim.
- **Hire a good lawyer and fight.** While new employees with PIIAAs should be handled carefully, you need not be cowed by the prospect of an aggressive former employer. When hiring companies can document that they invested heavily and substantially improved the employee’s idea to bring it to market (and acted in good faith), courts are reluctant to strip away the fruits of that labor. In Mattel, for example, the Ninth Circuit acknowledged that the idea had germinated while the inventor was still at Mattel but nonetheless rejected Mattel’s demand to impose a constructive trust over the Bratz doll line, noting the substantial resources MGA had poured into Bryant’s ideas.

If genius is one percent inspiration and 99 percent perspiration, ultimate ownership of a great idea (and the resulting profits) should reside with the company that put in the sweat equity. Whether an employer brandishing a PIIAA can lay claim, months or years later, to the fruits of an employee’s unarticulated ideas, remains an open question. In the meantime, be cautious, ask questions and protect your company.

The Ninth Circuit endorsed the possibility that something as fleeting as a burst of inspiration could be subject to a mandatory contractual assignment.

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