

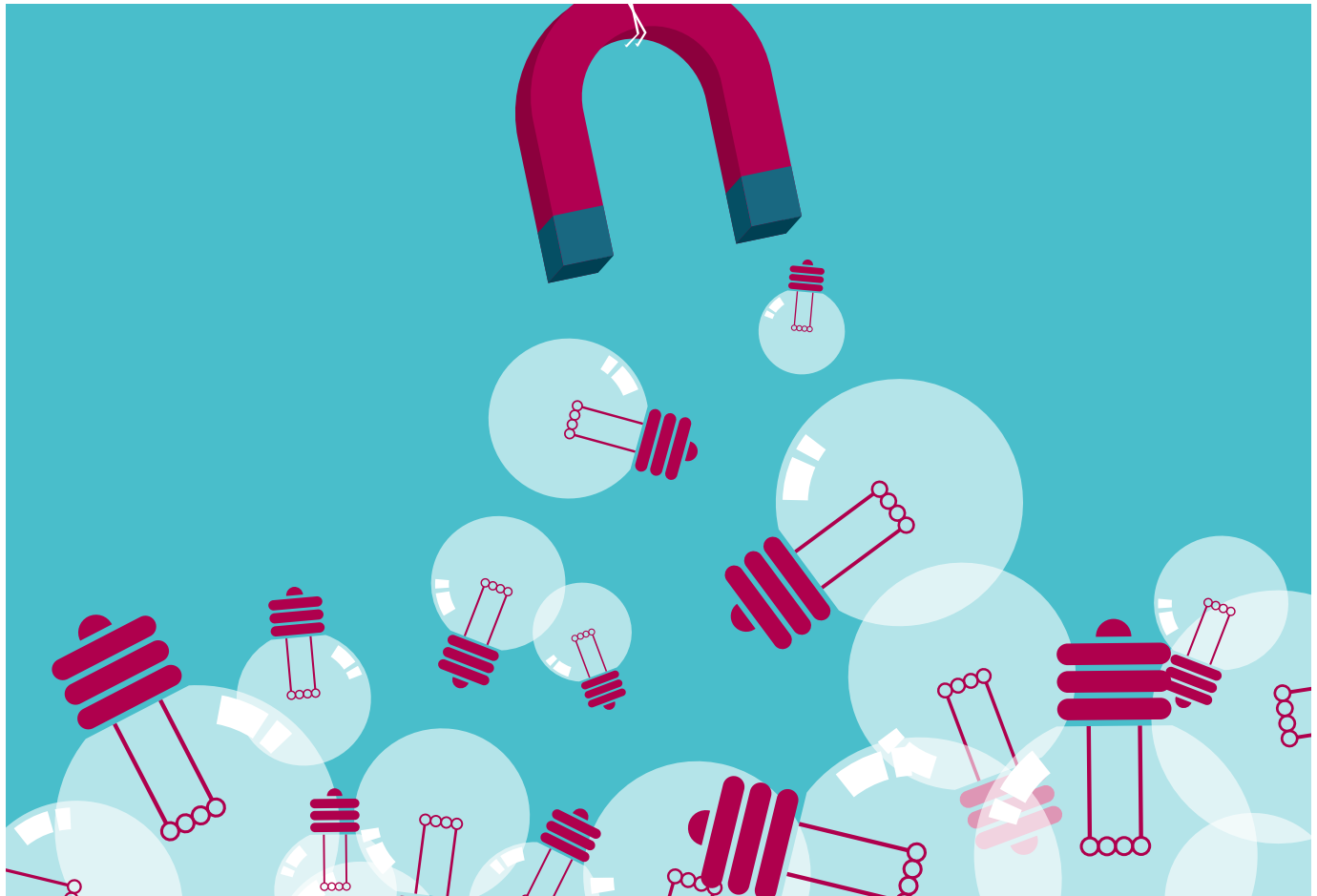
Today's GENERAL COUNSEL

SPRING 2018 TODAY'S GENERAL COUNSEL

Intellectual Property

Does Your Boss Own Your Brain?

By Warren Braunig and Sarah Salomon



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,

Intellectual Property

Intellectual Property

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

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.

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

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 clarified that an invention need not even be "related to" the specific type

Many employment agreements include a clause assigning to an employer all discoveries, improvements, ideas, processes, developments, designs, know-how and formulae the employee develops.

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 PIIAs 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

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 PIIA "shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment."

of work the employee performed for the employer. Rather, so long as the invention is related to some division or product line of the company, it is likely assignable. For employees of large companies with many product lines, that could exclude an entire industry.

Moreover, as a practical matter, it is rare that entrepreneurs or innovators develop new business concepts that have nothing to do with their prior or existing work. Instead, they often draw upon the know-how they've obtained as someone else's employee to fix a problem they've identified. As written and construed, however, Section 2870 makes little room for that reality.

Invention assignment agreements nominally prohibit an employee from competing against a former employer based on an idea conceived during that employment. Yet, at the same time, many states limit the use of contractual non-compete agreements. As the use of PIIAs rises, this doctrinal tension will be a source of continuing conflict, particularly in states like California, where non-compete agreements are almost universally unenforceable.

Free employee mobility is as embedded in California culture as surfing and traffic jams. The state's statutory prohibition on restrictive covenants,

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

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

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.

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.

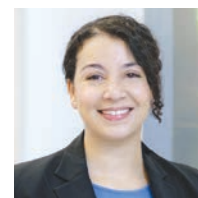
Undecided, however, is whether a broad PIIAA that targets an employee's ideas conceived of during her tenure might also violate Section 16600. Is an employee who engages in preliminary development of ideas she might wish to develop later any less entitled to use her previous work experience to flourish 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

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



Warren Braunig is a partner at Kecker, Van Nest & Peters LLP. He focuses his practice on complex commercial litigation, ranging from patent law, employment and contract disputes to administrative and water law and consumer class actions.
wbraunig@keker.com



Sarah Salomon is an associate at Kecker, Van Nest & Peters LLP. She specializes in complex commercial litigation, including trade secret cases involving employee mobility.
ssalomon@keker.com