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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

Applied Materials, Inc.,
Plaintiff,
v.
Advanced Micro-Fabrication Equipment
(Shanghai) Co., et al.,
Defendants.

NO. C 07-05248 JW
**ORDER GRANTING DEFENDANTS’
MOTION FOR SUMMARY JUDGMENT
ON DEFENDANTS’ COUNTERCLAIMS**

I. INTRODUCTION

Applied Materials, Inc. (“Applied” or “Plaintiff”) brings this diversity action against Advanced Micro-Fabrication Equipment, Inc., and its China and Asia subsidiaries (collectively, “Defendants”), alleging, *inter alia*, misappropriation of trade secrets and unfair business practices. In response, Defendants assert counterclaims for declaratory relief and unfair business practices.

Presently before the Court is Defendants’ Motion for Summary Judgment on Defendants’ Counterclaims for Declaratory Relief and Unfair Competition.¹ (hereafter, “Motion,” Docket Item No. 184.) The Court conducted a hearing on March 16, 2009. Based on the papers submitted to date and oral argument, the Court GRANTS Defendants’ Motion for Summary Judgment.

¹ Also before the Court is Plaintiff’s Motion to Strike the Declaration of Ronald Gilson in Support of Defendants’ Motion for Summary Judgment. (See Docket Item Nos. 216, 221.) The Court did not rely on the Gilson Declaration in reaching its decision. Accordingly, Plaintiff’s Motion to Strike is DENIED as moot.

United States District Court
For the Northern District of California

1 **II. BACKGROUND**

2 **A. Undisputed Facts**

3 Plaintiff is a California-based semiconductor manufacturing company with roughly 15,000
4 employees. (Declaration of Kenneth Kuwayti in Support of Defendants' Motion for Summary
5 Judgment on Counterclaims, Ex. A at 230:16, hereafter, "Kuwayti Decl.," Docket Item No. 185.)
6 Defendant AMEC China is a joint venture startup corporation, headquartered in Shanghai, China.
7 Defendants AMEC, Inc. and AMEC Asia are related holding companies. (See Docket Item No.
8 128.)

9 This trade secret and unfair competition litigation between the parties relates to the fact that
10 many of Defendants' employees previously worked for Plaintiff. In their capacity as Plaintiff's
11 employees, each of these individuals signed Plaintiff's Employment Agreement ("Agreement").
12 (See Kuwayti Decl., Exs. H, I, J, K, L, M.) Although the language of the Agreement has changed in
13 minor respects over time, each version of the Agreement contained an intellectual property
14 assignment clause ("Assignment Clause"). (See id., Exs. B, D, E, F, G.) For example, the 1997
15 version of the Assignment Clause states:

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

22 (Kuwayti Decl, Ex. J ¶ 2(A)(iii).)

23 **B. Procedural History**

24 On October 15, 2007, Plaintiff filed this action seeking, *inter alia*, to enforce the Assignment
25 Clause with respect to several of its former employees that had gone to work for Defendants.² In

26 ² Plaintiff alleges that its former employees Gerald Yin ("Yin"), Lee Luo ("Luo"), Jin-Yuan
27 Chen ("Chen"), and Ryoji Tokada ("Tokada"), among other employees, are subject to the
28 Employment Agreement. (See First Amended Complaint ¶¶ 23-27, hereafter, "FAC," Docket Item
No. 31.) Each of these individuals are alleged to have left Plaintiff's employ to work for
Defendants. (Id. ¶¶ 31-36.)

1 particular, Plaintiff alleges that inventions disclosed in several of Defendants' patent applications
2 were conceived by Plaintiff's former employees within one year of the conclusion of their
3 employment with Plaintiff. Accordingly, Plaintiff alleges that, pursuant to the Assignment Clause,
4 the specified inventions presumptively belong to Plaintiff. (FAC ¶ 41.) In response, Defendants
5 filed counterclaims, seeking a declaratory judgment that the Employment Agreements were
6 unenforceable non-compete agreements under California law. (See Docket Item Nos. 129-30.) On
7 June 19, 2008, the Court denied Plaintiff's motion to dismiss Defendants' counterclaims for
8 declaratory relief and unfair competition, finding that Defendants had sufficiently alleged that the
9 Assignment Clause violated California's statutory prohibition on non-compete agreements. (See
10 Docket Item No. 164 at 5.)

11 Presently before the Court is Defendants' Motion for Summary Judgment on Defendants'
12 Counterclaims for Declaratory Relief and Unfair Competition.

13 **III. STANDARDS**

14 Summary judgment is proper "if the pleadings, depositions, answers to interrogatories, and
15 admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any
16 material fact and that the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P.
17 56(c). The purpose of summary judgment "is to isolate and dispose of factually unsupported claims
18 or defenses." Celotex v. Catrett, 477 U.S. 317, 323-24 (1986).

19 The moving party "always bears the initial responsibility of informing the district court of
20 the basis for its motion. . . ." Id. at 323. "The judgment sought should be rendered if the pleadings,
21 the discovery and disclosure materials on file, and any affidavits show that there is no genuine issue
22 as to any material fact and that the movant is entitled to judgment as a matter of law." Fed. R. Civ.
23 P. 56(c). The non-moving party "may not reply merely on allegations or denials in its own pleading;
24 rather, its response must—by affidavits or as otherwise provided in this rule—set out specific facts
25 showing a genuine issue for trial." Fed. R. Civ. P. 56(e).

1 When evaluating a motion for summary judgment, the court views the evidence through the
 2 prism of the evidentiary standard of proof that would pertain at trial. Anderson v. Liberty Lobby
 3 Inc., 477 U.S. 242, 255 (1986). The court draws all reasonable inferences in favor of the non-
 4 moving party, including questions of credibility and of the weight that particular evidence is
 5 accorded. See, e.g., Masson v. New Yorker Magazine, Inc., 501 U.S. 496, 520 (1992). The court
 6 determines whether the non-moving party’s “specific facts,” coupled with disputed background or
 7 contextual facts, are such that a reasonable jury might return a verdict for the non-moving party.
 8 T.W. Elec. Serv. v. Pac. Elec. Contractors, 809 F.2d 626, 631 (9th Cir. 1987). In such a case,
 9 summary judgment is inappropriate. Anderson, 477 U.S. at 248. However, where a rational trier of
 10 fact could not find for the non-moving party based on the record as a whole, there is no “genuine
 11 issue for trial.” Matsushita Elec. Indus. Co. v. Zenith Radio, 475 U.S. 574, 587 (1986).

12 IV. DISCUSSION

13 Defendants move for summary judgment on their declaratory judgment and unfair
 14 competition claims, on the ground that the Employment Agreements are, as a matter of law,
 15 unenforceable non-compete agreements under California Business & Professions Code § 16600.
 16 (Motion at 11.) The Court first considers the nature of the restrictions imposed in the Employment
 17 Agreements, and then considers whether the Employment Agreements fall within the proscriptive
 18 ambit of California law.

19 **A. The Employment Agreements**

20 Defendants contend that Plaintiff’s Employment Agreements violate section 16600 because
 21 they unlawfully restrict employee mobility.³ (Motion at 11.) In support of this position, Defendants
 22 assert that Plaintiff requires all former employees to assign any invention to Plaintiff for a one year
 23 period,⁴ “even if the invention was the result of the independent research, development, and
 24 _____

25 ³ The Court discusses section 16600 in detail, *infra*.

26 ⁴ There is no dispute that the Assignment Clause is only triggered if the invention is related
 27 to an “employee’s work with [Applied] or to the business of [Applied] or any of its subsidiaries.”
 (Motion at 11 (quoting Kuwayti Decl., Ex. H § 2).)

1 investment of the employee personally or his or her new employer.” (Id.) Accordingly, it is
 2 Defendants’ position that the Employment Agreements violate California public policy in that they
 3 “place an economic penalty on [Plaintiff’s] employees for continuing to carry out work in their
 4 field.” (Id.) Plaintiff responds that the Assignment Clause is an appropriate method of protecting its
 5 trade secrets, because it does not make assignment during the one-year period mandatory, but
 6 merely creates a rebuttable presumption that inventions disclosed during that time period were
 7 conceived while the employee worked at Applied.⁵

8 To resolve this dispute, the Court first turns to the language of the Employment Agreement
 9 to determine the circumstances under which a former Applied employee’s inventions are assignable
 10 pursuant to operation of the Assignment Clause.⁶ The Assignment Clause provides:

11 In case any invention is described in a patent application or is disclosed to third
 12 parties by me within one (1) year after terminating my employment with
 13 APPLIED, it is to be presumed that the invention was conceived or made during
 14 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.

15 (Kuwayti Decl, Ex. J ¶ 2(A)(iii).)

16 First, the Assignment Clause expressly refers to “*any* invention” described in a patent
 17 application or disclosed to third parties by the employee. Second, the Clause states that such
 18 invention “will be assigned” to Plaintiff. Finally, the Clause limits the scope of assignment to
 19 inventions that “relate[] to [an employee’s] work with [Plaintiff] or any of its subsidiaries.” The
 20 plain language of the Assignment Clause thus dictates that any invention described or disclosed
 21 within one year of terminating an employment relationship with Plaintiff will be assigned to
 22 Plaintiff, provided the invention relates to the employee’s work with Plaintiff.

24 ⁵ (Plaintiff’s Opposition to Defendants’ Motion for Summary Judgment on Defendants’
 25 Counterclaims for Declaratory Relief and Unfair Competition at 1, hereafter, “Opposition,” Docket
 Item No. 213.)

26 ⁶ “Under California law, the interpretation of a written contract is a matter of law for the
 27 court even though questions of fact are involved.” Southland Corp. v. Emerald Oil Co., 789 F.2d
 1441, 1443 (9th Cir. 1986).

1 Plaintiff, however, relies on the clause stating “it is to be presumed that the invention was
2 conceived or made during the period of . . . employment for [Plaintiff].” Plaintiff contends that the
3 intervention of the term “presumed” indicates that the Assignment Clause is not mandatory, but
4 rather creates a presumption that a former employee may rebut to retain ownership over inventions
5 disclosed within one year of leaving Plaintiff’s employment. Relying on the plain meaning of this
6 phrase, the Court does not find that any rebuttable presumption is created. Instead, the Court reads
7 this phrase to simply mean that Plaintiff will presume inventions disclosed during the one-year post-
8 employment period were conceived during the period of employment. It then follows from the
9 language of the Assignment Clause that, on the basis of this presumption, any such inventions will
10 be assigned to Plaintiff.

11 Notably, there is no express creation of the rebuttable presumption for which Plaintiff
12 advocates. The Assignment Clause merely refers to action that Plaintiff will take on the basis of a
13 presumption that Plaintiff will make under a particular set of facts. It does not state that an
14 employee may rebut this presumption, nor does it state how an employee would do so. Indeed, there
15 is no mention that, under any set of circumstances, a former employee may retain ownership over
16 the class of inventions described in the Assignment Clause.

17 In sum, the Court finds that the Assignment Clause contains mandatory language requiring
18 former employees to assign any invention disclosed within one year of leaving Plaintiff’s employ,
19 provided the invention relates to work the employee performed for Plaintiff.

20 The Court next considers whether, as interpreted above, the Assignment Clause violates
21 California’s prohibition on employee non-compete agreements.

22 **B. Cal. Bus. & Prof. Code § 16600**

23 In California, “every contract by which anyone is restrained from engaging in a lawful
24 profession, trade, or business of any kind is to that extent void.” Cal. Bus. & Prof. Code § 16600.
25 Section 16600 “invalidates provisions in employment contracts that prohibit ‘an employee from
26 working for a competitor after completion of his employment or imposing a penalty if he does so
27

1 unless they are necessary to protect the employer’s trade secrets.”⁷ Edwards v. Arthur Andersen
 2 LLP, 44 Cal. 4th 937, 945-46 (2008) (quoting Muggill v. Reuben H. Donnelley Corp., 62 Cal. 2d
 3 239, 242 (1965)). This provision “evinces a settled legislative policy in favor of open competition
 4 and employee mobility.” Id. at 946. California’s restriction on non-competition agreements,
 5 however, does not extend to such agreements in the sale of corporations, partnerships, and limited
 6 liability corporations. Id. at 945-46 (citing Cal. Bus. & Prof. Code §§ 16601, *et seq.*).

7 Assignment clauses function as unlawful non-compete provisions where they require an
 8 employee to assign an invention conceived after departing from an employer’s service. See Bd. of
 9 Tr. of Leland Stanford Jr. Univ. v. Roche Molecular Sys., Inc., 487 F. Supp. 2d 1099, 1116 (N.D.
 10 Cal. 2007). Such clauses are enforceable, however, to the extent they “relate[] to ideas and concepts
 11 which were based upon secrets or confidential information of the employer. . . .” Armorlite Lens
 12 Co. v. Campbell, 340 F. Supp. 273, 275 (S.D. Cal. 1972).

13 In Armorlite, for example, an employer attempted to enforce an agreement that “require[d]
 14 the former employee to assign and communicate all ideas and concepts [for one year after
 15 terminating employment] whether they [were] based on the employer’s secrets or confidential
 16 information or not.” Id. The court reasoned that the agreement “encompass[e]d not only the
 17 dishonest employee . . . but also the honest employee who legitimately conceives an idea or
 18 improvement following . . . termination.” Id. The court found that the agreement was an
 19 “unnecessarily broad” restraint on trade, and held that it was invalid under section 16600 to the
 20 extent it attempted to do more than protect the employer’s confidential information. Id. In so
 21 deciding, the district court in Armorlite followed the Ninth Circuit’s holding in Winston Research
 22

23 ⁷ Defendants suggest that the existence of a “trade secret exception” to section 16600 is a
 24 speculative proposition, which is at best the subject of academic debate. (Motion at 13-14.) The
 25 Court, however, finds that case law amply supports the existence of such an exception. See
 26 Edwards, 44 Cal. 4th at 946; Bank of America, N.A. v. Lee, No. CV 08-5546 CAS (JWJx), 2008
 27 WL 4351348, at *6 (C.D. Cal. Sept. 22, 2008) (“‘trade secret exception’ to § 16600 still applies.
 Nothing in Edwards is to the contrary.”); Latona v. Aetna U.S. Healthcare, Inc., 82 F. Supp. 2d
 1089, 1096 (C.D. Cal. 1999) (“Employment restrictions that serve to protect a former employer’s
 trade secrets, proprietary information, and confidential information are valid in California.”).

1 Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134 (9th Cir. 1965). In Winston Research, the
2 Ninth Circuit had upheld an assignment agreement that required employees to assign inventions
3 “conceived within one year of termination of employment [which] were based upon confidential
4 information.” 350 F.2d at 145.

5 In this case, the Court has found that the Assignment Clause of the Employment Agreements
6 requires that former Applied employees assign any invention disclosed within one year of
7 terminating employment at Applied, provided the invention relates to work the employee performed
8 for Applied. Unlike the assignment provision upheld in Winston Research, the scope of the
9 Assignment Clause at issue here is not limited to inventions that are based on Plaintiff’s confidential
10 information. Rather, the Assignment Clause broadly targets any inventions “relate[d] to” former
11 employees’ “work” with Plaintiff. Such a sweeping provision conceivably encompasses both
12 inventions based on confidential employer information and inventions relating to former Applied
13 employees’ work in the broad field of semiconductor research and manufacturing. Indeed, despite
14 the fact that the Employment Agreements specifically define “confidential information,” the
15 Assignment Clause of those Agreements is in no way limited to situations in which former employee
16 inventions are the product of Plaintiff’s confidential information. (See Kuwayti Decl., Ex. J.)

17 The Court also finds that the Assignment Clause is deficient in that it is not limited to
18 inventions conceived by former Applied employees while employed at Applied. Instead, the scope
19 of the Assignment Clause includes any invention disclosed by former employees, regardless of when
20 or where they were conceived. As such, the Court finds that the Clause “encompasses not only the
21 dishonest employee . . . but also the honest employee who legitimately conceives an idea or
22 improvement following . . . termination.” Armorlite, 340 F. Supp. at 275.

23 Ultimately, the Court finds that the Assignment Clause is overly broad with respect to both
24 subject matter and temporal scope. Since the Court finds that the Assignment Clause touches post-
25 employment inventions, regardless of when they were conceived or whether they were based on
26 Applied’s confidential information, the Clause necessarily operates as a restriction on employee
27

1 mobility. Accordingly, the Court finds that the Assignment Clause is a post-employment penalty
2 that violates California public policy as codified in Business & Professions Code § 16600.

3 In light of this finding, the Court must consider whether, as an unlawful non-compete
4 provision, the Assignment Clause can be reformed or must be declared invalid and unenforceable.
5 In general, “courts reform contracts only where the parties have made a mistake and not for the
6 purpose of saving an illegal contract. Illegal contracts are void.” Kolani v. Gluska, 64 Cal. App. 4th
7 402, 407 (1998) (internal citations omitted); see also D’Sa v. Playhut, 85 Cal. App. 4th 927, 935
8 (2000). In Kolani, the court found that an employer’s non-compete agreement was void as an
9 “outright prohibition on competition” because it was not narrowly tailored to protect confidential
10 information and trade secrets. Id. The employer urged the court to apply a narrowing construction
11 to the agreement, “by construing it as merely barring misappropriation of customer lists and trade
12 secrets.” Id. The court declined to apply the employer’s proposed narrowing construction, on the
13 ground that “the policy of Business and Professions Code section 16600 would be undermined by
14 doing so.” Id. at 408. According to the Kolani court, the result would be that

15 [e]mployers could insert broad, facially illegal covenants not to compete in their
16 employment contracts. Many, perhaps most, employees would honor these
17 clauses without consulting counsel or challenging the clause in court, thus
18 directly undermining the statutory policy favoring competition. Employers would
19 have no disincentive to use the broad, illegal clauses if permitted to retreat to a
20 narrow, lawful construction in the event of litigation.

21 Id.

22 In this case, the Court has found that the Assignment Clause operates as an unlawful non-
23 compete provision. As such, it is void under California law. Kolani, 64 Cal. App. 4th at 407. The
24 Court is not permitted to apply any narrowing construction to limit the application of the
25 Assignment Clause to confidential information or to inventions conceived by former Applied
26 employees during their tenure at Applied. See id.

27 **C. Substantive Claims**

28 The Court considers whether, in light of the foregoing, summary judgment is appropriate as
to each of Defendants’ counterclaims.

1 **THIS IS TO CERTIFY THAT COPIES OF THIS ORDER HAVE BEEN DELIVERED TO:**

2 Colette R. Verkuil cverkuil@mofoc.com
3 Douglas C Duskocil dduskocil@goodwinprocter.com
4 Harold J. McElhinny HmcElhinny@mofoc.com
5 James C. Rehnquist jrehnquist@goodwinprocter.com
6 John C. Englander jenglander@goodwinprocter.com
7 Kenneth Alexander Kuwayti Kkuwayti@mofoc.com
8 Marc David Peters mdpeters@mofoc.com
9 Michael G. Strapp mstrapp@goodwinprocter.com
10 Thomas F. Fitzpatrick tfitzpatrick@goodwinprocter.com
11 Thomas H R Denver tdenver@mediationmasters.com

12 **Dated: May 20, 2009**

Richard W. Wieking, Clerk

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By: /s/ JW Chambers
Elizabeth Garcia
Courtroom Deputy