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7 CADENCE DESIGN SYSTEMS, INC.,
8 MAGMA DESIGN AUTOMATION, INC.,
9 ALTERA CORP., and MENTOR GRAPHICS
10 CORP.,

11 v.

12 Plaintiffs,
13 NARPAT BHANDARI AND VANGUARD
14 SYSTEMS, INC.,

15 Defendants.

16 No. C 07-00823 MHP

17 **MEMORANDUM & ORDER**
18 **Re: Plaintiff's Motion for Summary
19 Judgment**

20 Plaintiffs Cadence Design Energy Laboratory Company, Inc., Magma Design Automation,
21 Inc., Altera Corp., and Mentor Graphics Corp. brought this action against defendants Narpat
22 Bhandari (“Bhandari”) and Vanguard Systems, Inc. (“Vanguard”). Now before the court is
23 plaintiffs’ motion for summary judgment that LSI Logic, Inc. (“LSI”), who is not a party to this
24 case, is the owner of U.S. Patent Number 5,663,900 (the “900 patent”), and that defendants’
25 counterclaims for infringement must be dismissed for lack of standing. Having considered the
26 parties’ arguments and submissions, and for the reasons set forth below, the court enters the
27 following memorandum and order.

28 **BACKGROUND¹**

In the early 1990s, LSI was primarily engaged in the design, development, manufacture and
marketing of application-specific integrated circuits (“ASICs”). ASICs are customized integrated

1 circuits designed to meet the particular requirements of individual customers in the semiconductor
2 industry. Pl.’s Motion at 2. To create integrated circuits, semiconductor companies like LSI use
3 sophisticated electronic design automation (“EDA”) tools. EDA refers to computer-aided
4 techniques for designing, simulating, emulating and manufacturing integrated circuits. Typically,
5 customers brought LSI a set of requirements and specifications that an ASIC needed to satisfy. Id.
6 at 3. LSI then created a software model of an ASIC design meeting the customer requirements, and
7 used EDA tools to simulate that model to check that the design operated correctly. After
8 successfully simulating the ASIC design, LSI often emulated the design as well. Through
9 emulation, LSI would verify that an ASIC operated in its intended environment. Id. at 3.

10 Concomitant with ASIC production, LSI also invested in the research and development of its
11 own proprietary EDA tools. Pollack Dec., Exh. A at 5, 14-15. EDA tools were integral to
12 improving the quality and cost-effectiveness of LSI’s ASIC products, allowing LSI to simulate and
13 test ASICs without having to first fabricate a physical prototype. In its corporate disclosures and
14 10K for the period ending January 2, 1994, LSI disclosed that it “ha[d] developed and offers to its
15 customers its proprietary design tools [that] . . . improve the circuit designers’s productivity.”
16 Pollock Dec., Exh. A at 5. LSI obtained patent protection for its proprietary EDA tools, including
17 patents relating to simulation and emulation tools. LSI licensed its proprietary design tools to its
18 customers. LSI’s founder confirmed the role of EDA tools in LSI’s business, stating that LSI has
19 always been “an EDA company,” and not merely an ASIC company, because EDA tools and
20 technology facilitated LSI’s competitiveness in ASIC production. Pollack Dec., Exh. C at 90:18-23.

21 Daniel Watkins (“Watkins”) is not a party to this suit, but was a business partner and co-
22 inventor of defendant Bhandari. Watkins was an employee of LSI from 1985 through 2003. As a
23 condition of his employment with LSI, Watkins signed an Employee Invention and Confidential
24 Information Agreement (the “Invention Agreement”). Section 3 of the Invention Agreement
25 assigned and transferred to LSI any inventions Watkins made or conceived, while he was employed
26 by LSI, using company resources or which related in any manner to the “actual or demonstratively
27 anticipated business, work, or research and development of the Company or its subsidiaries.”
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1 (Section 3 has been quoted in full in the discussion section below). Pollack Dec., Exh. C at 1-2.
2 Section 10 of the Invention Agreement provided that the Agreement could not be modified except
3 by a written, signed document. Id. at 3.

4 From July 1992 through July 1995, Watkins worked exclusively in LSI's Mega-Functions
5 and Cores group division. Watkins' work in that division related to designing and developing digital
6 logic for ASICs. His specific duties included function development, function library management,
7 core development, core library management and customer support. Goldstein Dec., Exh. A. In
8 performing these duties, Watkins used EDA tools. For instance, Watkins used LSI's proprietary test
9 patterns and simulation models to verify that the integrated circuit designs operated correctly prior to
10 fabricating the integrated circuits. Watkins later developed a concept for an ASIC emulator which
11 he believed would "accelerate LSI's product development." The patent claiming this concept issued
12 as U.S. Patent Number 4,901,259 (the "'259 patent"). It discloses an EDA tool for "the 'real-time'
13 simulation of application specific integrated circuits (ASICs) in the actual digital computer system in
14 which they will be incorporated." Watkins is also named as inventor on U.S. Patent Number
15 5,220,512 (the "'512 patent") entitled "System for Simultaneous Interactive Presentation of
16 Electronic Circuit Diagrams and Simulation Data." In addition to the '259 and '512 patents, both of
17 which relate to EDA tools and both of which were assigned to LSI under the Invention Agreement,
18 Watkins is a named inventor on over sixty additional patents and published patent applications
19 assigned to LSI.

20 In 1993, a group including Watkins and defendant Bhandari founded Vasona Systems, Inc.
21 ("Vasona") to develop and market EDA technology. During this period Watkins maintained his
22 employment with LSI. Using his LSI email account, Watkins sent Bhandari at least one email
23 pertaining to Vasona's proposed business plan and a proposed EDA verification tool. Vasona hired
24 the law firm of Fenwick and West LLP to prosecute a patent application for a proposed EDA system
25 that as conceived, could be used to simulate a variety of different integrated circuits, including the
26 ASICs developed by LSI. The Fenwick and West attorney responsible for prosecuting the patent
27 advised Bhandari that under Watkins' Invention Agreement, LSI could claim ownership of the
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1 invention. While at LSI during working hours, Watkins used LSI's fax machines at least twice to
2 send the law firm notes related to the patent application. On September 10, 1993 Bhandari and
3 Watson filed a patent application for their proposed EDA system. The resulting '900 patent issued
4 on September 2, 1997. The '900 patent was entitled "electronic emulation and simulation system"
5 and named Bhandari and Watson as co-inventors and Vasona as assignee. Pollack Dec., Exh. S. As
6 part of its 1994 business plan, Vasona named LSI as a target customer.

7 In May 1998 Watkins sent a letter disclosing the '900 patent to LSI for the first time. In this
8 letter Watkins requested that LSI confirm that it did not have an ownership interest in the '900
9 patent. After an internal investigation of the matter, LSI rejected Watkins' request and informed
10 him of its belief that the '900 patent was covered by the Invention Agreement. Subsequently, on
11 August 4, 1998 Watkins sent another letter to LSI offering LSI a nonexclusive license of the '900
12 patent and proffering a proposed royalty-free license agreement. This offer was then rejected in an
13 August 25, 1998 memorandum in which LSI opined that it owned an undivided one-half interest in
14 the '900 patent under the Invention Agreement. Then, on September 21, 1998 Watkins and
15 Bhandari sent LSI another letter proposing a joint ownership agreement and stating that LSI's
16 Human Resources manager had advised Watkins that his outside consultation work relating to the
17 development of software verification tools would not pose a conflict with his duties. LSI again
18 rebuffed Watkins' and Bhandari's efforts in a September 21, 1998 memorandum reiterating its belief
19 that LSI had an ownership interest in the '900 patent.

20 Subsequently, LSI changed the primary correspondence address in the Patent and Trademark
21 Office ("PTO") file for the '900 patent from Vasona to LSI without first seeking or obtaining
22 Vasona's, Watkins' or Bhandari's consent or permission. Vasona paid development costs for the
23 invention embodied in the '900 patent and absorbed all expenses related to the prosecution of the
24 '900 patent. LSI did not reimburse Vasona for these costs and expenses. Thereafter, LSI
25 continued to correspond with the PTO and paid all required maintenance fees for the '900 patent.
26 LSI also changed the power of attorney from Vasona to LSI without first seeking consent.

27 Having never sold any products or made any revenue, Vasona disbanded. Pl.'s Motion at 11.
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1 Bhandari then started a new company, Vanguard, and signed a document assigning the '900 patent
2 from Vasona to Vanguard. Id. Bhandari is the sole owner of Vanguard. Id. On November 11, 2006
3 Bhandari filed a patent infringement suit in the Eastern District of Texas against plaintiffs and other
4 companies. The court dismissed the complaint on the grounds that Bhandari had assigned his
5 interest to Vanguard and thus did not have standing to bring suit for infringement of the '900 patent.
6 Nguyen Dec., Exh. B (May 11, 2007 Order of Judge Davis).

7 Plaintiffs filed this action for declaratory judgment on February 8, 2007. On March 1, 2007
8 plaintiffs licensed the '900 patent from LSI. Under the license agreements, LSI released each
9 plaintiff from any and all claims of past infringement and granted them non-exclusive licenses to
10 practice the invention covered by the '900 patent. Plaintiffs now move for summary judgment on
11 LSI's ownership of the '900 patent and the corresponding dismissal of defendants' counterclaims for
12 infringement based on lack of standing.

13

14 LEGAL STANDARD

15 Summary judgment is proper when the pleadings, discovery and affidavits show that there is
16 "no genuine issue as to any material fact and that the moving party is entitled to judgment as a
17 matter of law." Fed. R. Civ. P. 56(c). Material facts are those which may affect the outcome of the
18 case. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). A dispute as to a material fact is
19 genuine if there is sufficient evidence for a reasonable jury to return a verdict for the nonmoving
20 party. Id. The party moving for summary judgment bears the burden of identifying those portions
21 of the pleadings, discovery, and affidavits that demonstrate the absence of a genuine issue of
22 material fact. Celotex Corp. v. Cattrett, 477 U.S. 317, 323 (1986). On an issue for which the
23 opposing party will have the burden of proof at trial, the moving party need only point out "that
24 there is an absence of evidence to support the nonmoving party's case." Id.

25 Once the moving party meets its initial burden, the nonmoving party must go beyond the
26 pleadings and, by its own affidavits or discovery, "set forth specific facts showing that there is a
27 genuine issue for trial." Fed. R. Civ. P. 56(e). Mere allegations or denials do not defeat a moving
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1 party's allegations. Id.; Gasaway v. Northwestern Mut. Life Ins. Co., 26 F.3d 957, 960 (9th Cir.
2 1994). The court may not make credibility determinations, and inferences to be drawn from the
3 facts must be viewed in the light most favorable to the party opposing the motion. Masson v. New
4 Yorker Magazine, 501 U.S. 496, 520 (1991); Anderson, 477 U.S. at 249.

5 The moving party may "move with or without supporting affidavits for a summary judgment
6 in the party's favor upon all or any part thereof." Fed. R. Civ. P. 56(a). "Supporting and opposing
7 affidavits shall be made on personal knowledge, shall set forth such facts as would be admissible in
8 evidence, and shall show affirmatively that the affiant is competent to testify to the matters stated
9 therein." Fed. R. Civ. P. 56(e).

10

11 DISCUSSION

12 The issue before the court is whether, under the Invention Agreement signed by Watkins, the
13 '900 patent was assigned to LSI, making LSI the legitimate owner of the patent. Section 3 of the
14 Invention Agreement states:

15 I [Watkins] hereby assign and transfer to the Company [LSI] my entire right, title, and
16 interest in and to all inventions (as used in this Agreement, "inventions" shall include ideas,
17 improvements, designs and discoveries), whether or not patentable and whether or not
18 reduced to practice, made or conceived by me (whether made solely by me or jointly with
19 others) during the period of my employment with the Company which are [1] made with the
20 Company's equipment, supplies, facilities, trade secrets, or time, **or** [2] which relate in any
manner to the actual or demonstratively anticipated business, work, or research and
development of the Company or its subsidiaries, **or** [3] which results from or is suggested by
any task assigned to me or any work performed by me for or on behalf of the Company or its
subsidiaries. This Agreement does not require assignment of an invention which is the
subject of Section 2870 of the California Labor Code (hereinafter "Section 2870").

21 Pollack Dec., Exh. C Section 3 (emphasis and brackets added).

22 The court will address several threshold issues before turning to the parties' main dispute
23 regarding whether the '900 patent "relates to" LSI's business. First, the agreement is an enforceable
24 contract under California law. Both Watkins and LSI assented to its terms and Watkins received
25 valid consideration in the form of compensation from LSI. Second, defendants argue that the
26 agreement was modified by a later oral agreement in which LSI's human resources manager, Jon
27 Gibson, represented to Watkins that his work with Bhandari and Vasona would not conflict with the
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1 Invention Agreement. This oral modification, if it occurred at all², however, is ineffective to change
2 the terms of the Invention Agreement because the Agreement specifically prohibited modifications
3 not in writing and signed by both Watkins and LSI. Pollack Dec., Exh. C Section 10 (“[t]his
4 Agreement may not be changed, modified, released, discharged, abandoned, or otherwise amended,
5 in whole or in part, except by an instrument in writing, signed by the Employee and the Company”).
6 Third, the Invention Agreement assigns to LSI any invention conceived by Watkins, regardless of
7 whether it was conceived solely by Watkins or in collaboration with others. That Watkins worked
8 with Bhandari, rather than alone, is therefore immaterial. Fourth, the ‘900 patent is assigned to LSI
9 if Watkins was employed at LSI when it was conceived or made. This is undisputed. Watkins was
10 employed continuously with LSI from 1985 through 2003; the ‘900 patent was not only conceived
11 but was also filed and prosecuted in 1993; and the patent was ultimately issued in 1997. Finally,
12 assignment to LSI was automatic upon filing of the patent listing Watkins as a co-inventor. Other
13 than execution of the Invention Agreement, no further action was necessary for the assignment to be
14 effective. ViChip Corp. v. Lee, 438 F. Supp. 2d 1087, 1094-95 (N.D. Cal. 2006) (agreement that
15 provided that the employee “assigns” rather than “agrees to assign” automatically transfers the
16 patent without further affirmative steps by the employer).

17 The court now turns to the main issue regarding the scope of the subject matter assigned to
18 LSI under the Invention Agreement. California Labor Code section 2870 places limitations on the
19 types of inventions that an employee can be required to assign to an employer.³ If the invention falls
20 within the protection of section 2870, an agreement purporting to assign the invention is
21 unenforceable. Lab. Code § 2870(b) (“To the extent a provision in an employment agreement
22 purports to require an employee to assign an invention otherwise excluded from being required to be
23 assigned under subdivision (a), the provision is against the public policy of this state and is
24 unenforceable”). The Invention Agreement is drafted as a mirror image of California Labor Code
25 section 2870. The language of the Agreement closely tracks the language of section 2870, and the
26 Agreement expressly references the statute. Pollack Dec., Exh. D Section 3 (“This [Invention]
27 Agreement does not require assignment of an invention which is the subject of Section 2870 of the
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1 California Labor Code"). The scope of the Invention Agreement is therefore coextensive with the
2 scope of section 2870—the Agreement assigns to LSI all inventions that section 2870 does not
3 specifically prohibit. Iconix, Inc. V. Tokuda, 457 F. Supp. 2d 969, 992 (N.D. Cal. 2006)
4 (agreements that explicitly incorporate sec. 2870 are interpreted as having the same scope as the
5 statute). Section 2870 contemplates three independent scenarios in which an assignment is valid and
6 enforceable, and the Invention Agreement tracks these three scenarios.⁴ The "related to" prong⁵
7 assigns to LSI all inventions that "relate in any manner to the actual or demonstrably anticipated
8 business, work, or research and development of [LSI] or its subsidiaries." Under section 2870(a)(1),
9 this type of assignment agreement is specifically exempted and is therefore enforceable. The
10 question for the court, then, is whether the '900 patent is "related to" LSI's business or actual or
11 anticipated research or development. The employee bears the burden to show that his invention
12 comes within Labor Code section 2870. Lab. Code § 2872.

13 Courts interpreting employee assignment agreements in the context of section 2870 have
14 construed the "related to" phrase broadly. Cubic Corp v. Marty, 229 Cal. Rptr. 438 (Cal. Ct. App.
15 1986). In Cubic, the employee signed an invention agreement which assigned all inventions
16 "coming within the scope Company's business or related to Company's products or to any research,
17 design experimental or production work carried on by Company." Id. at 444. The employee
18 invented an electronic warfare simulator, which the employer did not yet have in its product line.
19 The warfare simulator was a stand-alone product which did not necessarily have to be used in
20 conjunction with the employer's pilot training programs. Id. at 447. The court held that the
21 employee's invention was related to the employer's business and its assignment was enforceable in
22 light of section 2870. Id. at 451-452 The court found that the employee presented his invention to
23 the employer as "something to enhance" the employer's existing product line; that he designed the
24 warfare simulator to function with the employer's pilot training program; and that the patent
25 application stated the "preferred embodiment" of the invention was the employer's pilot training
26 program. The employee himself recognized that his invention was related to his employer's
27 business. Id. at 447.

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1 As in Cubic, the '900 patent in this case is related to LSI's business. In the early 1990's,
2 when the '900 patent was conceived, LSI's primary business was the design, development,
3 manufacture and marketing of ASICs. EDA tools were integral to LSI's business because they
4 improved the quality and cost-effectiveness of their ASIC products. For example, the EDA tools
5 allowed LSI to simulate, test and verify the integrated circuit designs prior to their physical
6 manufacture. Because of their importance, LSI invested in the research and development of its own
7 proprietary EDA tools. Beginning in 1990, LSI began obtaining patent protection for its proprietary
8 EDA tools and LSI profited from licensing these tools to its customers. These facts are supported by
9 a 1994 SEC filing stating that LSI "ha[d] developed and offers to its customers its proprietary
10 software design tools...[that] improve the circuit designer's productivity." Pollack Dec., Exh. A at 5.

11 Watkins himself used EDA tools at LSI and was named an inventor on patents which were
12 assigned to LSI under the Invention Agreement. Pollack Dec., Exh E (patent 4,901,259 issued in
13 1990) & F (patent 5,220,512 issued in 1993). The '259 patent was for "the 'real-time' simulation of
14 application specific integrated circuits (ASICs)," and the '512 patent was entitled "System for
15 Simultaneous Interactive Presentation of Electronic Circuit Diagrams and Simulation Data." It is
16 undisputed that these two patents, developed in 1990 and 1993, were related to EDA tools.

17 Stipulated Statement of Undisputed Facts ¶ 25-26.

18 In addition, like the employee in Cubic, there is evidence indicating that Watkins and
19 Bhandari themselves recognized that the '900 patent was related to LSI's business. The '900 patent
20 application states that EDA tools are "used to define and verify prototype systems, such as various
21 application specific integrated circuits (ASICs)." Pollack Dec., Exh. S. Prior to the filing of the
22 patent application, an attorney from the law firm of Fenwick and West LLP advised Bhandari that
23 LSI could claim ownership of the invention under Watkins' Invention Agreement. Pollack Dec.,
24 Exh. O. Despite the risks, Bhandari chose to proceed with the patent application. Id. After the
25 application was filed, Watkins and Bhandari formed a business plan for Vasona in 1994, naming LSI
26 as a target customer for their proposed EDA system. Pollack Dec., Exh. M at BHA 000362 (filed
27 under seal).

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1 It is undisputed that the '900 patent relates to EDA tools. Stipulated Statement of
2 Undisputed Facts ¶ 27. It is also undisputed that LSI's business relied on EDA tools to manufacture
3 ASICs, and that the design and development of EDA tools was part of LSI's business. Id. at ¶¶ 2-5,
4 8-11. Based on all of the evidence in the record, the court concludes that there is no genuine issue of
5 material fact as to whether the '900 patent was related to LSI's business at the time the patent was
6 conceived. Accordingly, defendants have no ownership interest in the '900 patent and their
7 counterclaims must be dismissed for lack of standing.

8 Given the overwhelming strength of the evidence in the record, defendants do not attempt to
9 dispute that the '900 patent is related---in the general sense described above---to the business of LSI.
10 Instead, defendants urge this court to construe narrowly the meaning of the phrase "relate to the
11 employer's business" as it is used in section 2870(a)(1) and mirrored in the Invention Agreement.
12 Defendants argue that under the legislative history of section 2870, an invention is not assigned to
13 the employer unless it is related to the smallest business division in which the employee actually
14 works. Defendants allege that LSI is a conglomerate, multi-divisional company. Watkins worked in
15 the Mega-Functions and Cores group division between 1992 and 1995. While Watkins' division
16 used EDA tools, these divisions did not design or develop EDA technology. Thus, defendants
17 argue, the work of Watkins' divisions did not relate to the '900 patent which involved the design and
18 development of EDA tools.

19 Defendants are wrong both as a matter of fact and as a matter of law. First, as a matter of
20 fact, the record does not support the assertion that Watkins did not design and develop EDA tools as
21 part of the actual work he did in his division. It is undisputed that while employed at LSI and
22 around the time he conceived the '900 patent, Watkins' was named inventor on two EDA-related
23 patents assigned to LSI (the '512 and '259 patents). LSI, moreover, was not a conglomerate
24 business with many unrelated product lines and divisions. As evidenced in its 1994 SEC filing,
25 LSI's primary business at the time Watkins' conceived of the '900 patent was the design and
26 development of ASICs for which EDA tools were a vital component. There is no contrary evidence
27 in the record to suggest that LSI was engaged in any other business.

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1 As to the question of law regarding whether section 2870 should be interpreted narrowly,
2 defendants cite selectively to the legislative history of AB 474, the bill that first enacted section
3 2870 during the 1978-1979 legislative session. Defendants rely on a June 5, 1979⁶ letter from
4 Assemblyman Terry Goggin to the members of the California Legislature advocating the smallest-
5 business-division approach. Goldstein Dec., Exh. B. Assemblyman Goggin was the author of AB
6 474⁷. Whether Goggin's letter embodies legislative intent depends on whether his views were
7 adopted or rejected by the legislature as a whole. Indeed, not "every scrap of paper that is generated
8 in the legislative process constitutes" "cognizable legislative history." Kaufman v. Performance
9 Plastering, 133 Cal. App. 4th 26, 29 (2005). "Statements of an individual legislator, including the
10 author of a bill, are generally not considered in construing a statute, as the court's task is to ascertain
11 the intent of the Legislature as a whole in adopting a piece of legislation." Id. at 30. Assemblyman
12 Goggin requested that his letter be entered into the Senate Journal as an expression of legislative
13 intent regarding the definition and scope of the phrase "relate to the employer's business." When
14 Goggin's letter became public, however, the Senate Industrial Relations Committee received
15 comments from numerous companies opposing the smallest-business-division interpretation. See,
16 e.g. Senate Industrial Relations Committee File 1979-80 (opposition letters from McDonnell
17 Douglas, Aerojet-General Corporation, and Monogram Industries, Inc.). The Senate Committee
18 then instructed Goggin "to reach an accommodation with" the opponents. Nguyen Dec., Exh. C at
19 10 (J.B. McGuire, "Employment-Invention Contracts, A History of California Code Sections 2870-
20 2892," California State Bar Journal, DOPU). The Committee, moreover, "ignored and refused to
21 accept Goggin's letter" and it was never entered into the Senate Journal. Id.; Senate Industrial
22 Relations Committee File 1979-80 (August 17, 1979 Committee summary of AB 474, stating, "[a]t
23 the time this bill was first heard by this committee, the author indicated that he intended to enter a
24 letter of intent in the Assembly and Senate Journals indicating that the definition of "employer" for
25 the purpose of a conglomerate corporation would be the smallest unit of the corporation. *The author*
26 *has now decided not to enter this letter in the Journals.*" (emphasis added)). Ultimately, the
27 language of the statute contained a broad phrase permitting assignments of inventions that "relate to
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1 the business of the employer.” Had the California Legislature intended the statute to be restricted to
2 the smallest business division in which the employee actually works, they would have used such
3 language in the statute itself. Defendants’ narrow interpretation is contrary to the legislative history
4 of section 2870, the statute’s plain language, and precedent caselaw such as Cubic.

5 As a final matter, the court need not decide the issue of whether the ‘900 patent is assigned to
6 LSI under an alternative prong of the Invention Agreement covering inventions “made with [LSI’s]
7 equipment, supplies, facilities, trade secrets, or time.” The record contains evidence that Watkins
8 worked on drafting and prosecuting the patent applications while he was physically present at LSI’s
9 facilities, during normal business hours, and that he used LSI’s fax and email to communicate with
10 Bhandari and the law firm prosecuting the ‘900 patent. Pollack Dec., Exh. P, L, Q. As previously
11 discussed, the Invention Agreement contains three independent prongs on which an invention may
12 be assigned. If any one of them is met, it is immaterial whether the other two are also met. Since
13 the court has concluded that the ‘900 patent is “related to” LSI’s business, it need not also address
14 whether Watkins used company resources to develop it.

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16 CONCLUSION

17 The court GRANTS plaintiff’s motion for summary judgment and DISMISSES each of
18 defendants’ counterclaims.

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20 IT IS SO ORDERED.

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22 Dated: November 8, 2007

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MARILYN HALL PATEL
United States District Judge
Northern District of California

ENDNOTES

- 1 1. Unless otherwise noted, all facts are taken from the Stipulated Statement of Undisputed Facts.
- 2 2. Watkins has testified that he apprised LSI of his relationship with Bhandari and Vasona when
- 3 they first began their venture in 1993 and that Jon Gibson gave his approval. Watkins Dec. ¶ 7;
- 4 Watkins Tr. at 174:21–175:5. Jon Gibson has testified that he has no recollection of any
- 5 conversation with Watkins regarding his work with Bhandari and Vasona. Gibson Dec. ¶¶ 4–5.
- 6 Gibson instead testifies that LSI policies would have prevented him from authorizing Watkins' work
- 7 with Vasona because LSI required employees to obtain written permission from their immediate
- 8 supervisor, not human resources personnel. *Id.* This factual dispute, however, does not raise a
- 9 genuine issue of material fact because the Invention Agreement clearly prevents such oral
- 10 modifications.
- 11 3. California Labor Code section 2870(a) states, “[a]ny provision in an employment agreement
- 12 which provides that an employee shall assign, or offer to assign, any of his or her rights in an
- 13 invention to his or her employer shall not apply to an invention that the employee developed entirely
- 14 on his or her own time without using the employer's equipment, supplies, facilities, or trade secret
- 15 information except for those inventions that either: (1) Relate at the time of conception or reduction
- 16 to practice of the invention to the employer's business, or actual or demonstrably anticipated
- 17 research or development of the employer; or (2) Result from any work performed by the employee
- 18 for the employer.”
- 19 4. The prefatory language of section 2870(a) restricts application of the statute to “an invention that
- 20 the employee developed entirely on his or her own time without using the employer's equipment,
- 21 supplies, facilities, or trade secret information.” Thus, if the invention *was* developed using the
- 22 employer's time or resources, then the statute does not prohibit assignment and such agreements are
- 23 enforceable. This is true regardless of whether the invention relates to the business of the employer
- 24 (sec. 2870(a)(1)) or whether the invention resulted from work performed by the employee for the
- 25 employer (sec. 2870(a)(2)). In the case where the invention *was not* developed using the employer's
- 26 time or resources, courts have recognized that subparts (a)(1) and (a)(2) are connected with the
- 27 disjunctive “or” and thus operate independently. *Cubic Corp. v. Marty*, 185 Cal.App. 3d 438, 452
- 28 (1986). If *either* subpart applies, *and* the employee did not use the employer's resources, then the
- statute does not prohibit assignment and such agreements are enforceable. *Iconix v. Tokuda*, 457 F.
- Supp. 2d 969, 989. In sum, there are three independent scenarios in which an agreement assigning
- an invention to an employer is enforceable under section 2870: (1) The invention was developed
- using the employer's time *or* resources; *or* (2) The invention relates to the employer's business or
- actual or demonstrably anticipated research or development; *or* (3) The invention resulted from
- work performed by the employee for the employer. The Invention Agreement tracks these three
- scenarios.
5. The other two prongs to LSI (1) an invention “made with the Company's equipment, supplies,
- facilities, trade secrets, or time”; and (2) an invention which “results from or is suggested by any
- task assigned to [the employee] or any work performed by [the employee] for or on behalf of the
- Company or its subsidiaries.”

1 6. Assemblyman Goggin's letter states, "The problem of interpretation concerns the definition of
2 the term employer as used in the context and this proposed statute. A person employed by a
3 conglomerate corporation having multiple divisions...may find that his or her employer's "business"
4 is so varied and far-reaching that any inventions no matter how far afield of the concern of that
5 employee's own division...relates to the business or research and development of the parent
6 corporation. Such an interpretation of the term employer frustrates the obvious intent of AB 474
7 that otherwise independent inventions of the employee should belong solely to that employee. In
8 order to ensure that the patent rights of employees do not fluctuate wildly depending upon the
9 market position of an employees' parent corporation, it is necessary to declare as the legislative
10 intent of AB 474 that in a corporation having multiple divisions..., *the term employee as used in AB*
11 *474 shall relate only to the division, affiliate, subsidiary, profit center, or company (whichever unit*
12 *is smallest) rather than to the parent corporation.*" Goldstein Dec., Exh. B (emphasis added). The
13 letter that defendants provide is undated and unsigned. However, Goggin's letter is referenced in a
14 *California State Bar Journal* article ("Employment-Invention Contracts, A History of California
15 Code Sections 2870-2892", J.B. McGuire, DOPU). The journal article dates the letter as June 5,
16 1979 and repeats the letter verbatim. Plaintiffs have supplied this journal article to us as Nguyen
17 Dec., Exh. C at 9. This letter was located in the Senate Committee file for the 1979-80 legislative
18 session when AB 474 was passed.

19 7. An earlier bill to enact section 2870 was introduced in the 1977-1978 legislative session, but that
20 bill did not pass. Senate Final History, AB 2257.

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