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New California Law Limits Choice of Law and Forum Selection Clauses in IP Agreements

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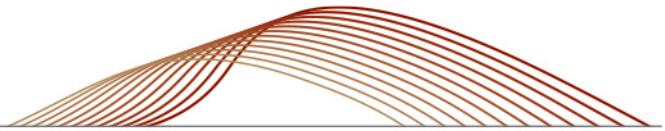
As our Client Alert reported yesterday, Governor Brown signed a new law that limits when a company can use choice of law and forum selection provisions with California employees. In addition to the general ramifications mentioned previously, it is important to focus on employers who designate foreign law in routine intellectual property and confidentiality agreements commonly used with low-level employees.

Historically, many companies, particularly those headquartered in other states, tried to protect their intellectual property by utilizing form Employee Confidential Information Agreements that intentionally contained foreign choice of law provisions, designating law that is regarded as more "employer friendly." California courts responded by often refusing to apply foreign laws that offended the state's fundamental public policies. Some companies then turned to mandatory forum selection provisions. Employees could still try to invalidate the forum selection clause in California state court. But the employers' odds of success were far better in federal court, because federal law strongly favors forum selection clauses. *See, e.g., Atlantic Marine Const. Co., Inc. v. U.S. Dist. Court for West Dist. of Texas*.

SB 1241 (to be codified as California Labor Code Section 925) provides that an employer shall not require certain California employees, as a condition of employment, to agree to a provision that would:

1. require the employee to adjudicate outside of California a claim arising in California; or
2. deprive the employee of the substantive protection of California state law with respect to a controversy arising in California.

Under SB 1241, effective January 1, 2017, companies who enter contracts with employees primarily living or working in California can no longer include foreign choice of law or forum provisions in non-negotiable, low-level agreements designed to protect intellectual property, prohibit customer solicitation, assign inventions, and the like. The new law specifically empowers an employee to void foreign choice of law or forum selection provisions in an employment contract entered as a condition of employment, and if successful, to recover an award of reasonable attorneys' fees and costs.



Importantly, many intellectual property agreements with high-level executives will be excluded from the law's scope because it does not apply if the employee is represented by counsel in negotiating the terms of the agreement. This is often the case with executive agreements. Also, SB 1241 applies only to contracts that are entered, modified, or extended after January 1, 2017, so pre-existing contracts are not affected.

Finally, many undefined terms will be subject to interpretation by practitioners and the courts. For example, SB 1241 does not define when an employee "primarily" resides and works in California, leaving open the possibility that employees who routinely work in other jurisdictions may not be covered.

For more information and assistance with protection of your company's intellectual property, please contact Paul Hastings' Employee Mobility and Trade Secrets Practice Group.

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If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:

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