

Contracting with Corporate Inventors & Key Personnel:

Cradle to Grave ... and After

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**Southwest Regional Meeting
American Chemical Society
September 29 – October 2, 2004**

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I. INTRODUCTION

The following is intended to provide an overview of some of the issues affecting the relationships between companies and their inventive employees from the beginning to the end of the relationship, with some attention to the battles which may follow after as well. Additional focus and emphasis is placed in a couple of spots where the authors' own tastes seemed to merit it. Other areas which have been more heavily discussed or well addressed by other articles are touched on more lightly. Of particular use in the general overview was the paper *Pursuit of the Inventor-Employee* authored by Gale R. "Pete" Peterson of Cox & Smith, Inc. which he presented at the Texas State Bar IP Section Advanced Intellectual Property Law Seminar in Santa Fe, New Mexico, July 24-25, 1997. While it is not specifically cited, it served as an excellent guide to issues which might be of particular interest, particularly in the realm of what comes after the relationship is finished. Other articles and papers of interest are cited throughout, with the stated intention of providing additional (and often more focused) examination of some of the points herein.

II. THE BEGINNING

A. Entrance Interview

An entrance interview provides the opportunity to accomplish two separate goals, the closure (and avoidance of problems) of previous employment and the opening of the new relationship.

First, an entrance interview helps protect the company from potential problems and litigation from the previous employer. By asking questions regarding previous employment agreements and obligations, as well as who previous employers were and in what fields work was done for them, proactive informed decisions can be made regarding the employee. This information can be taken into consideration when assigning geographic or topical areas of work. Delays needed to wait out reasonable restrictions can be accommodated. Contact can be initiated with the previous employer to try to resolve potential areas of conflict at an early stage. All of these cautionary efforts can be used to defend the company in the event a former employer does

elect to sue the former employee and his new company. Some of this information could even be pursued in the interviews leading up to employment for an earlier identification and assessment of these issues.

Second, an entrance interview provides the opportunity to go over and execute employment agreements, establishing and explaining the ground rules and obligations expected by the new company. The below listed items are some of the details which should be considered for discussion in the entrance interview and inclusion in an employment agreement.

B. Initial Employment Contract(s)

1. Non-disclosure

Perhaps the most enforceable provision of an employment contract is a non-disclosure agreement. Not only should such an agreement establish that an employee is not to take and use confidential or proprietary information of the company to future employers, but it should detail the types of information considered confidential or proprietary and the processes to be undertaken during and after employment to protect such information.

2. Non-competition

General non-competition agreements are typically considered suspect in most states across the country. While each state has its own law governing these issues, this paper will only address Texas law specifically, and it only briefly. In many cases, states allow covenants to impose restrictions of competition which are *reasonably* limited as to time, geographical area, and scope of activity restricted, with the variance being what the states define as reasonable. However, some states simply believe covenants not to compete as such are against public policy,² leaving primarily indirect enforcement against competition such as non-disclosure agreements and trade secret enforcement (*see* Section V.B.2.a. on inevitable disclosure below).

² *See, e.g.,* CAL. BUS. & PROF. CODE § 16600 *et seq.* (West 2004).

Texas particularly has had a recent history of non-compete law in a state of flux, as through the 1980's and into the early 1990's the legislature and the Texas Supreme Court have been bickering over the enforceability of such agreements.³ Since the 1993 amendments and the case of *Light v. Centel Cellular Co.*,⁴ matters seemed to have settled somewhat, but this is not an excellent predictor that there will not be continuing squabbles. The two key statutory requirements are that the non-compete be ancillary to or part of an otherwise enforceable agreement at the time the agreement is made,⁵ and that the covenant contains “limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.”⁶

Of course, the real area for play is in what constitutes “reasonable” limitations. An article by Larry Carlson provides an excellent sampling of cases addressing these questions.⁷ While the cases do tend to be highly fact specific, a decent rule of thumb is that anywhere from 6 months to 2 years probably falls within a reasonable time limitation. Geographic limitations are more challenging, but expansion of the region past the “territory” worked by the employee will almost certainly cause problems with employee/salespersons. With the more typical inventor, however, a well-defined subject matter limitation may compensate for the absence of a narrow geographic limitation based on the practicalities of the industry involved. Finally, it never hurts to sprinkle throughout the covenant not to compete assertions regarding the trade secret and confidential information which the covenant not to compete is intended to protect.

³ See generally, Richard L. Armstrong, *The Changing Face of Noncompetition and Nondisclosure Covenants*, 57 TEX. STATE BAR J. 962 (1994).

⁴ *Light v. Centel Cellular Co.*, 883 S.W.2d 642 (Tex. 1994).

⁵ TEX. BUS. & COM. CODE ANN. § 15.50 (Vernon 2004).

⁶ TEX. BUS. & COM. CODE ANN. § 15.51 (Vernon 2004).

⁷ See Larry D. Carlson, *Enforcing a Non-Compete*, 4 TEX. INTELL. PROP. L.J. 149, 154-57 (1996).

3. *Non-solicitation of Company Clients*

Consideration should be given to providing a separate clause preventing the solicitation of company clients for at least some period after expiration of the agreement. Such a provision should probably be limited to those customers with whom the employee had contact during the period of his employment.⁸ However, one may also consider that even if an employee had no contact with the firm customer, if he finds out about them while at the firm (by removing a firm customer list for example) a potential trade secret abuse arises which could be used to block this type of activity. A slightly more aggressive clause was upheld as reasonable by the Northern District of Texas in 1991. This clause limited against solicitation of “any of the client of [the company] whom I served or whose names became known to me while in the employ of Merrill Lynch.”⁹ This provides the extra avenue to incorporate the trade secret concept of customer lists into the non-solicitation agreement, while preventing the more inequitable situation where a former employee can not know who not to contact unless he obtains a presumably trade secret complete customer list for his former company. Particularly when there is a large pool of available clients, these types of clauses may provide viable alternatives to more aggressive non-compete clauses.

These clauses are not necessarily designed to prevent the former employee from doing business with company clients, merely from actively soliciting them for such business. Depending on the circumstances, one may also consider contracting for a notice of departure without active solicitation for those clients the employee was managing. Such a provision should keep the clients happier about both the employer and the employee, as well as provide a patina of reasonableness likely to encourage a court to enforce the overall restriction.

⁸ See, e.g., *Peat Marwick Main & Co. v. Haass*, 818 S.W.2d 381, 387 (Tex. 1991) (finding a non-solicitation agreement to be overbroad where it prevented solicitation of clients with whom former employee had no contact while at the firm).

⁹ *Ruscitto v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 777 F. Supp. 1349, 1354 (N.D. Tex. 1991), *aff'd without op.*, 948 F.2d 1286 (5th Cir. 1991), *cert. denied*, 504 U.S. 930 (1992).

4. *Non-solicitation of Company Personnel*

Another area of heightened sensitivity is the solicitation of company personnel by departing employees. Again, this type of clause is most likely to be successful when it strikes the court as reasonably limited based on the circumstances of the industry and the position of the departing employee. For example, where the departing employee is a manager or director, with fiduciary duties to the company, the wholesale solicitation of a section of the company may be viewed as violative of such duties. For individuals in less critical positions, obligations on solicitation of other employees are less likely to be found reasonable or desirable by the courts.

5. *Preinvention Assignment Agreements*

The other critical area for the employment contract is the agreement to assign inventions to the company. Such an agreement should include not only patent applications and patents issuing therefrom, but also other potential proprietary rights such as copyrights and trade secrets, as well as the technology, know-how, and other work and information supporting and independent of such proprietary rights.

Particularly with respect to trade secrets, the following danger exists. There exists case law indicating that an employee may have the right to use trade secret information which the employee developed for the company. The touchstone case on this issue is a 1960 Pennsylvania case *Wexler v. Greenberg*.¹⁰ In *Wexler*, the court pontificated upon the privilege of an employee to use the fruits of his own skills and labors.¹¹ A more concise version of this theory was presented in *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*¹² in which the federal district court found that an employee had a privilege to use

¹⁰ *Wexler v. Greenberg*, 160 A.2d 430, 125 U.S.P.Q. (BNA) 471 (Pa. 1960).

¹¹ *Wexler*, 160 A.2d at 434-36, 125 U.S.P.Q. (BNA) at 474-77 (although the Court did point out that there was no express covenant not to disclose).

¹² *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*, 401 F. Supp. 1102, 1111-12 (E.D. Mich. 1975).

and disclose a trade secret he generated *unless he was contractually bound otherwise*.¹³ This version of the theory makes clear that contractual provisions can remove this employee right to use. Viewed in this light, it almost makes sense. Absent a contract, an employee owns his own patentable inventions. Why shouldn't he own his trade secret inventions? As for public policy, it could be argued that if it were otherwise, incentives would be set up for companies to maintain inventions as trade secrets to prevent them from going to employees who have not contractually agreed to assign their rights in such inventions.

While these cases giving trade secrets to the employee/creator have some age to them, as recently as 1987, the 5th Circuit followed this path stating:

if the subject matter of the trade secret is brought into being because of the initiative of the employee in its creation, innovation or development even though the relationship is one of confidence, no duty arises since the employee may then have an interest in the subject matter at least equal to that of his employer or in any event, such knowledge is a part of the employee's skill and experience.¹⁴

Since the 5th Circuit is citing *Structural Dynamics* for this proposition, one may consider that it may be avoided by contract, but it remains a lurking threat. Regardless, it supports the importance of contractually tying up for the employer other rights and information in addition to simply the right to patents and patent applications.

A final consideration with respect to preinvention assignments is the scope of inventions covered by such assignments. Numerous states (not yet including Texas) have begun restricting by statute the rights of employers to require advance assignment of employee inventions.¹⁵ While it is a standard requirement that

¹³ *Id.*

¹⁴ *Plains Cotton Cooperative Assoc. v. Goodpasture Computer Serv., Inc.*, 807 F.2d 1256, 1263, 1 U.S.P.Q.2d (BNA) 1635, 1641 (5th Cir. 1987), *cert. denied*, 484 U.S. 821 (1987) (citing *Structural Dynamics*, 401 F. Supp. at 1111).

¹⁵ *See, e.g.*, CAL. LAB. CODE §§ 2870-72 (West 2004); DEL. CODE ANN. tit. 19 § 805 (2004); 765 ILL. COMP. STAT. 1060/2 (2004); KAN. STAT. ANN. § 44-130 (2003); MINN. STAT. ANN. § 181.78 (West 2003); N.C. GEN. STAT. §§ 66-57.1, 66-57.2 (2004); UTAH CODE ANN. §§ 34-39-1 to -3 (2004); WASH. REV. CODE §§ 49.44.140-.150 (2004); *see generally* Evelyn D. Pisegna-Cook, *Ownership Rights of Employee Inventions: The Role of Preinvention Assignment Agreements and State Statutes*, 2 BALT. INTELL. PROP. L.J. 163 (1994).

inventions which were either worked on with company time or materials, or inventions which relate to the company's business or anticipated expansion, may be included, often purely independent inventions may not be so covered. Similarly, such obligations to assign can often not be extended significant amounts of time past actual employment with the company (trailer clauses). To avoid potential problems with such statutes, as well as to improve inventor morale, less all encompassing language might be employed in what the inventors agree to assign. Tying the obligation to matters related to company business or to matters worked on using company resources (even if the resources were used and the employee left soon after) would appear to present a reasonable protection for the company while avoiding the extremes which some states are legislating against and the negatives associated with such extremes.

Finally, as a brief foreign practice issue spotting note, many foreign countries are much more restrictive on employee inventions and compensation for same. One particular requirement, known only lightly by the authors, is the Norwegian requirement that a patent application be filed on the prospective invention within a fixed period of time or else the employer waives its right to ownership of the invention. This is intended merely to highlight the need to consider and consult regarding foreign laws before addressing almost any of the ideas discussed in this paper with employees in foreign countries or potentially subject to foreign laws.

6. Employee Handbook

Employee handbooks, while by no means replacing the necessity of written and executed employment contracts, do provide several potentially helpful advantages. First, they can help inform employees what the ground rules are (a task hopefully already accomplished in the entrance interview) both with respect to ownership of inventions, trade secrets, and technological developments generally and with respect to confidentiality. They may also serve as a reference over time as memories of the details of earlier discussions fade. Further, as changes occur, updates to the handbooks again disseminate the company positions on important matters.

For more direct impact, employee handbooks may also serve to help swing the balance on ownership or confidentiality in the event of a later fight or in the event a contract is missed or misplaced. For example, in *University Patents, Inc. v. Kligman*, a district court in Pennsylvania refused summary judgment of ownership of an invention by the employee who had not executed any contract to assign to his employer.¹⁶ The court considered that, based in large part on the employee handbook, a jury could reasonably find that an implied-in-fact contract existed to assign the employee's inventions to the company.¹⁷ Similarly, in numerous trade secret cases where former employees are attempting to use information obtained in their previous employ, handbook statements regarding what the company considers as confidential material are used as persuasive indicators of that status and employee's knowledge of the same.¹⁸ To further support this function for handbooks, they can be referenced in the base employment agreement. It may also be helpful to have signature pages for employees to acknowledge that they have received and reviewed their handbooks. While these provide additional administrative burdens, they can serve to strengthen the company's position.

¹⁶ *University Patents, Inc. v. Kligman*, 762 F. Supp. 1212, 20 U.S.P.Q.2d (BNA) 1401 (E.D. Pa. 1991).

¹⁷ *University Patents*, 762 F. Supp. at 1221-24, 20 U.S.P.Q.2d (BNA) at 1412-15.

¹⁸ *See, e.g., Riggs Investment Mgm't Corp. v. Columbia Partners, L.L.C.*, 966 F. Supp. 1250, 1265 n.5 (D.D.C. 1997).

III. CONTINUING THE RELATIONSHIP

A. Inventorship Designation

The proper designation of inventorship has, in recent years, provided a moving target posing significant potential problems for the long term life expectancy of a patent. While the Federal Circuit swings first one way and then another on the inclusiveness of inventorship on detailed factual points which are difficult to draw a rule from, the danger exists that if a patent is ever actually litigated, the accused infringer will head straight into any inventorship dispute as a means of invalidating an otherwise healthy patent. Further, maintaining happy scientists often involves delicate political negotiations regarding status as an inventor and order of listing, which if not successfully accomplished may result in actions by one's own people (either while still at home or after they have gone) endangering validity and sometimes ownership itself in company patent property. A case out of the Federal Circuit, next discussed, has at least helped resolve some of the concerns regarding the ability to “correct” earlier mistakes and still emerge with a valid patent.

1. *The More Things Change, The More They Stay The Same*

The conventional wisdom when naming inventors within a corporation had been to err on the side of inclusiveness, if there was a close question on inventorship. However, growing concerns of invalidity based on incorrect inventorship and difficulties correcting inventorship retrospectively due to the requirement that there be a lack of deceptive intent had been making such choices increasingly difficult. The Federal Circuit decision of *Stark v. Advanced Magnetics, Inc.*¹⁹ interpreting 35 U.S.C. § 256 (the statute for correcting inventors on issued patents) has in fact brought this issue back to square one, reinforcing the old line conventional wisdom.

¹⁹ *Stark v. Advanced Magnetics, Inc.*, 119 F.3d 1551, 43 U.S.P.Q.2d (BNA) 1321 (Fed. Cir. 1997).

a. Stark v. Advanced Magnetics, Inc.

In an interlocutory appeal from the District Court for Massachusetts, the Federal Circuit was directly confronted with the need to interpret 35 U.S.C. § 256 on the correction of inventorship of an issued patent. Although this case involved a dispute between an independent individual and a company he collaborated with, its application of the statute is equally instructive for dealing with potential internal inventorship “errors” as well.

Stark was suing Advanced Magnetics, Inc. (“AMI”) and some of its officers both under state law fraud and conversion theories for taking his idea and leaving him off of the disputed patents (one of which he argued should be in his name alone and the others of which he argued he should be a co-inventor on), and under federal law for correction of the inventorship of the patents.²⁰ The District Court held in response to a motion for summary judgment that for correction under § 256, both the applicant (AMI in this case) and the actual inventor (ostensibly Stark) must have made an innocent mistake and must be innocent of fraud. Based on this holding, the District Court dismissed Stark's action for correction as conflicting with his state law claims based on fraudulent actions on the part of AMI.²¹

A Federal Circuit panel reversed and remanded based on a different interpretation of 35 U.S.C. § 256. The panel, in an opinion by Judge Rader, held that the statutory language created the following standards:

- (a) In the case of a misjoined inventor (a person named as an inventor who should be removed) there is no requirement at all that there be no deceptive intent;
- (b) In the case of a nonjoined inventor (a person who was not named as an inventor who should be added) the only requirement is that there be no deceptive intent on the part of the nonjoined inventor.²²

²⁰ *Stark*, 119 F.3d at 1552, 43 U.S.P.Q.2d (BNA) at 1321-22.

²¹ *Stark*, 119 F.3d at 1552, 43 U.S.P.Q.2d (BNA) at 1322.

²² *Stark*, 119 F.3d at 1555, 43 U.S.P.Q.2d (BNA) at 1324.

In reaching this conclusion the panel observed that this interpretation would be different for 35 U.S.C. § 116 (the statute which applies to correcting inventorship in a pending application) which requires no deceptive intent to correct both misjoined and nonjoined inventors, but places this blame at the foot of the Congress for having provided a comma in one statute which is not present in the other.²³

b. If in doubt, put them on

Nevertheless, the overall message of the Federal Circuit panel's opinion is clear. For the time being, at least, the conventional wisdom is embraced as sound. The requirement of no deceptive intent to obtain correction is narrowly construed and effectively eliminated. Rarely would it be expected that an inventor would be *excluded* for some deceptive reason on *his* part.

Further, the distinction created between nonjoined and misjoined inventors (albeit one which may not have infinite life, being based on a single comma) provides renewed support for one of the classic theories of naming inventors. If one is in doubt as to whether an individual's contribution rises to the level of inventorship, it is better to put them on the patent than to leave them off. If it is later determined that the individual in doubt (or any other named inventor) should not have been named, a court may correct the error (a “misjoinder”) without any inquiry into deceptive intent at all. By comparison, if an inventor is left off (a “nonjoinder”), inquiry must be made into the intent of the nonjoined inventor.

The real result, in view of *Stark*, is that inventorship is less likely to prove an incontestable invalidation of an otherwise valid patent. With the direct hurdle to correction effectively narrowed to inconsequence in most situations, the only remaining concern is the traditional inequitable conduct standards. These standards are a familiar companion to most prosecutors, and the good faith efforts made in filing and

²³ *Stark*, 119 F.3d at 1555, 43 U.S.P.Q.2d (BNA) at 1324. The panel also dismissed the concurrence of Judge Plager, which argued that the statute should be read to place the deceptive intent requirement only in the PTO and that, under a proper interpretation of the statute; courts should have their full equity powers to determine whether inventorship should be changed. *Id.*

prosecuting the patent should prove helpful in dealing with this concern with inventorship issues as with all other issues arising in prosecution.

2. Ordering of Inventors - The Need for a Plan

From the standpoint of protection of the company, as well as maintaining the happiness of the treasured key employees, not only should care be taken in properly naming those who have contributed to a given invention, but in the order in which the names are entered. Rationally, in the patent world, there is no difference or legal significance in the order of names on a given patent. This is particularly true when all of the inventors have assigned their rights to the company anyway. As a practical matter, however, when patents are issued, the title lines typically only list the first named inventor, with the others grouped under the phrase “et al,” although they are fully listed in the detailed inventorship listing further down the page. So despite the absence of legal significance, the holdover of primacy in authorship for scientific articles, as well as the preference to avoid relegation to “et al” status places significant concern on the issue of order of inventors. Surprising as it may sound, this issue can even result in potential liability for the company.

a. What juries will do?

In an actual recent situation, a company found itself embroiled in a wide-ranging dispute with a disgruntled inventor. With respect to certain key patents, the company had already had to try to resolve internally a dispute between the inventor and another company employee regarding inventorship, with each of the scientists claiming sole inventorship of the claimed subject matter. After independent investigation by outside counsel, the company concluded both men should be named as inventors, but animosity and lack of agreement on inventorship persisted. The company (by certificate of correction) changed the order of the names on one of the patents to obtain closer to a fifty/fifty split in whose name was listed first on the several patents involved. A state court jury returned an award against the company for this action on the theory it “defamed” the inventor whose name was moved back to second.

b. Pick an objective plan and be wary of changes

The real answer is, of course, that there is no simple satisfying solution to this Gordian knot. Whichever path is chosen leads to potentially unsatisfying results. There is a natural inclination to want to list inventors in the order of importance, a context provided by most other sequences in a society where the best is rarely saved for the least noticeable position: a glance at the order of names on the doors to most law firms provides corroboration for this observation.

On the other hand, valuing contributions to an invention both in quantity and quality involves what has been often referred to as “one of the muddiest concepts in the muddy metaphysics of patent law.”²⁴ The use of an arbitrary system, such as alphabetical order, reverse alphabetical order, or even drawing names from a hat (if properly monitored and controlled), would remove many of the hurt feelings and resentment on the part of inventors who instead of being praised for their contribution feel put down because of a subjective decision that what they contributed was less important. To be perfectly honest, a system not based on contribution may prove to create fewer flare-ups on a patent by patent basis. While inventors may be unhappy with an arbitrary system (e.g. alphabetical order) in global, it does not create the continuing possibilities for animosity and even feelings of diminished self-worth as one inventor's contribution is deemed more worthy than another's on a case by case basis. It also avoids some of the pitfalls of systems which automatically list inventors by rank within the company, with the potential resentment against managers horning in on subordinates' work that such a ranking sometimes exacerbates. However, an arbitrary system presents its own inequities based on the context discussed earlier; if inventor Al Albertson contributed one element to a single claim out of 78, while inventor Mark Man was unquestionably the creative genius behind the overall breakthrough and almost every embodiment of it, is it fair for the patent to go down in history as “Albertson et al.”

²⁴ *Mueller Brass Co. v. Reading Indus. Inc.*, 352 F. Supp. 1357, 1372, 176 U.S.P.Q. (BNA) 361, 372 (E.D. Pa. 1972), *aff'd without op.*, 487 F.2d 1395 (3d Cir. 1973).

The one lesson recommended is to pick a system and stick with it. If exceptions are to be made, be very aware of the circumstances and potential problems they may create.

3. *Special Compensation for Inventorship/Achievement*

Working with key employees and inventors should involve the use of the carrot as well as the stick. A wide variety of plans exist to reward inventors, with almost as many plans as companies desiring to reward innovation. Some degree of compensation for the time spent working through the patent process with an attorney and recognition of the inventive work underlying such an application can be an important incentive to encourage your best people to stay around. One of the alternatives is to have bonuses based not only on the filing of the application or issuance of the patent, but also based on longer term success of the technology, either of the products in the marketplace or in licensing revenues. Of course, subjective factors again enter into the equations and can create dissension or resentment based on the evaluation of success or merit of the issued patent. Perhaps most important, however, is again to pick a system and stick with it. If it is to be done right, the bonus should be more than a “mere tip” trivializing the value provided by the inventor.

B. Longer Term Vesting Benefits/Other Positive Incentives to Stay

Another avenue on the carrot side of the equation may be an effort to use a “golden handcuffs” approach, creating longer term vesting compensation (particularly bonus or other *additional* compensation) providing additional discouragement to leaving the company. By rewarding those who stay, a positive environment may be created. In an example tied to the previous discussion, if continuing bonuses are provided based on the continuing long term success of an issued patent (with substantial bonuses for substantial success), this provides incentive to stick around to the people responsible for your most successful technology. These are the very people that are most subject to raiding by competitors. In this manner, a reward also becomes an incentive to stay. Again however, for the desired impact, there must be a willingness to reward in correspondence to the magnitude of the long term success.

C. Review/Update of Employment Contracts in Conjunction with Raises/Promotions

While it seems a minor point, an excellent strategy for contracting with key employees and inventors is to use the time of raises and/or promotions as opportunities to review employment and other key agreements and update or modify them as needed. First, this may be an ideal time for addressing these issues as the employee is likely to be favorably disposed to the company contemporaneous with these decisions. Second, it provides excellent consideration supporting such modifications, at a time when a major weakness of employment agreements (particularly for at will employees) is failure of consideration. Finally, a promotion will often bring new responsibilities or exposure which may call for different or modified terms on employment, secrecy, and assignment agreements.

D. Term Agreements as an Alternative

Finally, to protect employees and inventors of primary significance, the use of term employment agreements may provide several benefits. Much of the weakness in non-compete agreements arises from the at-will nature of the employment of the employees under those agreements.²⁵ A term agreement provides much stronger support for prevention of competition of an employee within the term.²⁶ Further, the fact that a company will effectively “tenure” an employee should provide desirable security and stability to the employee, as well as provide positive connotations to “tenured” professorship status in the scientific/academic world. Recognizing of course that term agreements do restrict flexibility on both sides, this is obviously not a step to be taken with every employee and inventor. Nevertheless, short range term agreements, potentially

²⁵ See *Light v. Centel Cellular Co.*, 883 S.W.2d 642, 644-45 (Tex. 1994); see also, e.g., *Travel Masters, Inc. v. Star Tours, Inc.*, 827 S.W.2d 830, 832-33 (Tex. 1991) (citing *Martin v. Credit Protection Ass'n*, 793 S.W.2d 667, 669-70 (Tex. 1990)) (both *Travel Masters* & *Martin* were decided prior to statutory change attempting to make non-competes in employment-at-will relationships fully enforceable).

²⁶ See, e.g., *Zep Mfg. Co. v. Harthcock*, 824 S.W.2d 654 (Tex. App. -- Dallas 1992, no writ) (holding that even a minor limitation to the employer's right to terminate the employee is probably sufficient to support a non-compete); see generally Larry D. Carlson, *Enforcing a Non-Compete*, 4 TEX. INTELL. PROP. L.J. 149, 152-54 (1996).

with evergreen rollover clauses, or even medium range term agreements may provide benefits both in additional carrots as well as the ability to have bigger sticks.

IV. RELATIONSHIP'S END

A. The Exit Interview

1. Finalize Outstanding Assignments

Before the employee gets out the door, it is an excellent idea to clean up outstanding matters of the employment. Perhaps most important is to finalize formal assignments for those existing matters which employee has agreed to assign (by contract) but has not yet done so. The execution of the formal documents not only solidifies the legal ownership, but also has the effect of reminding the departing employee of his earlier agreements. In part, this can either put potential disputes to bed before they get started, or at least bring them out into the open at an early stage (i.e., before the new employer has started taking advantage of the situation while remaining “ignorant” of your potential claims).

2. Reinforce Obligations of Agreements

The exit interview also provides the chance to carefully review with the employee his or her actual employment agreements. This gives an opportunity to reinforce the confidentiality provisions particularly. Again this provides both the practical effect of making clear to the employee what the company's position is (helping prevent inadvertent disclosure by the typically ethical employee), as well as the legal effect of providing evidence that the employee was on notice regarding the company's confidential and trade secret information (providing documentation supporting enforcement against the more unusual unethical employee).

V. THAT WHICH COMES AFTER THE END ... LITIGATION

A. Some Bases for Maintaining Ownership/Rights

1. Contracts

As discussed previously, a contract to assign, particularly one combined with a later assignment in hand,²⁷ remains the most secure method of protecting company ownership of inventions by its employees. Some states (for example California) have legislated against contracts which lay claim to every possible invention of an employee. Yet even California's law only exempts preinvention assignment of inventions: which were developed on the employee's own time; which were developed without use of trade secrets, company supplies, equipment, facilities, or property (such as copy machines, computers, telephones); and which did not result from work performed by the employee for the employer, or relate to the company's business, or relate to the company's actual or demonstrably anticipated research or development. As recognized by Peter Chen in his article *An Inside Job*,²⁸ any company's "anticipated" research and development can cover quite a broad range of ideas.

2. Hired-to-Invent

Given the Federal Circuit's inclination to rewrite or provide its personal stamp of approval on every aspect of the patent law, it is in some ways remarkable that the present research did not locate a case where the Federal Circuit has taken the time to pontificate on the "hired-to-invent" or "employed-to-invent" doctrine.²⁹ Of course this area has been fairly well defined, from *Standard Parts Co. v. Peck*³⁰ and *United*

²⁷ See Section IV.A.1. *supra*.

²⁸ Peter P. Chen, *An Inside Job*, LOS ANGELES DAILY J., p.S24 (April 25, 1996).

²⁹ Although, an argument may be made that the implied agreement to assign case *Teets v. Chromalloy Gas Turbine Co.*, discussed in Section V.A.3. below, dealt with some aspects of "hired-to-invent" law.

³⁰ *Standard Parts Co. v. Peck*, 264 U.S. 52 (1924).

*States v. Dubilier Condenser Corp.*³¹ in the Supreme Court forward through numerous U.S. Courts of Appeals and State Court decisions through the 50's, 60's, and 70's.

Regardless, a district court case in the Southern District of Texas was willing to sum it up concisely as follows: “When an employee is hired to devote his efforts to a particular problem, to conduct experiments for a specifically designed purpose, and an invention results from the performance of that work, it belongs to the employer.”³² The key element to remember is the required particularity and specificity. While courts are occasionally swayed by arguments that certain researchers are hired with the general mission to invent for the company, in the absence of the express agreements already discussed, the strong trend is to look for a more particularized mission or task specifically contemplated for the employment of the employee.

3. *Implied in Fact Agreement to Assign*

While the most desirable option is to get written agreements to assign from all employees who may end up as inventors, the 1996 Federal Circuit decision *Teets v. Chromalloy Gas Turbine Corp.*³³ indicated the Federal Circuit's willingness to reverse a district court to award ownership of an invention to an employer under an “implied-in-fact” contract.³⁴ The Federal Circuit summarized the facts supporting an implied-in-fact agreement to assign as follows:

DRB [Teets' employer] specifically directed Teets to devise a one piece leading edge for GE.
Having directed Teets to that task, compensated him for his efforts, paid for the refinement

³¹ *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 17 U.S.P.Q. (BNA) 154 (1933).

³² *Stranco, Inc. v. Atlantes Chem. Sys. Inc.*, 15 U.S.P.Q.2d (BNA) 1704, 1716 (S.D. Tex. 1990), *aff'd without op.*, 960 F.2d 156 (Fed. Cir. 1992) (citing *Shook v. United States*, 238 F.2d 952, 954, 111 U.S.P.Q. (BNA) 250 (6th Cir. 1956), *cert. denied*, 353 U.S. 924 (1957)).

³³ *Teets v. Chromalloy Gas Turbine Corp.*, 83 F.3d 403, 38 U.S.P.Q.2d (BNA) 1695 (Fed. Cir. 1996), *cert. denied*, 519 U.S. 1009, 117 S. Ct. 513, 136 L. Ed. 2d 402 (1996).

³⁴ This decision was made under Florida law, as state law governs contractual matters, but the Circuit indicated that Florida law in this area was typical in following older U.S. Supreme Court decisions involving ownership of inventive rights.

of the process, and paid for the patent protection, Chromalloy [DRB's parent] owns the patent rights in the [invention].³⁵

The Federal Circuit considered irrelevant the fact that no one at DRB had ever applied for a patent before the application under consideration.³⁶ The Federal Circuit also considered of little importance the fact that there was no express agreement entered into with Teets prior to the project, noting that “the absence of express agreement characterizes all cases involving an implied-in-fact contract relationship.”³⁷

In summary, even in the absence of a contract or of a clear “hired-to-invent” situation, where an employee is: assigned to a project, supported in that project, and particularly where the employee cooperates in the filing of an application for an invention emerging from that project; there may arise an implied-in-fact agreement to assign such an invention to the employer. To avoid the uncertainty of such an implied contract, consider evaluating employee agreements before promoting them to head up new projects, as discussed previously. Again, there is no substitute for an express contract clarifying who will own any inventions. It is certainly cheaper both fiscally and psychologically than a later court battle with one of your own people.

4. *Fiduciary Duty of Officers to Assign*

Although less frequently asserted than the hired-to-invent theory, there may be an obligation for an inventor acting in a fiduciary capacity with respect to the company (for example a partner, manager, officer, director, or major stockholder) to assign inventions to the company.³⁸ This duty has been justified under

³⁵ *Teets*, 83 F.3d at 408, 38 U.S.P.Q.2d (BNA) at 1699.

³⁶ *Teets*, 83 F.3d at 408-09, 38 U.S.P.Q.2d (BNA) at 1699.

³⁷ *Teets*, 83 F.3d at 409, 38 U.S.P.Q.2d (BNA) at 1699.

³⁸ See, e.g., *Kennedy v. Wright*, 676 F. Supp. 888, 892, 6 U.S.P.Q.2d (BNA) 1379, 1383 (C.D. Ill. 1988), *aff'd without pub. op.*, 867 F.2d 616, 10 U.S.P.Q.2d (BNA) 1316 (Fed. Cir. 1989); *Great Lakes Press Corp. v. Froom*, 695 F. Supp. 1440, 7 U.S.P.Q.2d (BNA) 1070 (W.D.N.Y. 1987); see generally, Paul C. Van Slyke & Mark M. Friedman, *Employer's Rights to Inventions and patents of Its Officers, Directors and Employees*, 18 AIPLA QUARTERLY J. 127, 147-50 (1990).

several theories including corporate opportunity, alter ego, and implied consent or estoppel.³⁹ Texas courts have also recognized a duty of fiduciaries to assign patents in *Davis v. Alwac International, Inc.*⁴⁰ While this is not the most reliable route; it provides additional persuasive value when the inventor disputing ownership was previously a high-ranking employee, even if not directly in research.

5. *Shop Rights in Employee's Patent*

While this is the last place an employer wants to be with respect to an invention by an employee (current or former), it does provide some degree of hope for equitable resolution and the ability to go on and move forward with the company's business. In 1993, the Federal Circuit provided its take on the shop right doctrine, electing to side step the doctrinal question of whether a shop right is a “type of implied license” or a “form of equitable estoppel” in favor of a more fluid (or flexible if your cups are usually half-full) generically equitable basis.⁴¹

The Federal Circuit stated its belief that:

the proper methodology for determining whether an employer has acquired a “shop right” in a patented invention is to look to the totality of the circumstances on a case by case basis and determine whether the facts of a particular case demand, under principles of equity and fairness, a finding that a “shop right” exists. In such an analysis, one should look to such factors as the circumstances surrounding the development of the patented invention and the inventor's activities respecting that invention, once developed, to determine whether equity and fairness demand that the employer be allowed to use that invention in his business. A factually driven analysis such as this ensures that the principles of equity and fairness underlying the “shop rights” rule are considered.⁴²

In what is a much more practical guide, the Federal Circuit later indicates that:

An employer will have shop rights in an invention in situations where the employer has financed an employee's invention by providing wages, materials, tools and a work place.

³⁹ *Great Lakes Press*, 695 F. Supp. at 1446, 7 U.S.P.Q.2d (BNA) at 1074.

⁴⁰ *Davis v. Alwac Int'l, Inc.*, 369 S.W.2d 797 (Tex. Civ. App. -- Beaumont 1963, writ ref'd n.r.e.).

⁴¹ *McElmurry v. Arkansas Power & Light Co.*, 995 F.2d 1576, 1581, 27 U.S.P.Q.2d (BNA) 1129, 1133 (Fed. Cir. 1993).

⁴² *McElmurry*, 995 F.2d at 1581-82, 27 U.S.P.Q.2d (BNA) at 1134.

Other factors creating shop rights include an employee's consent, acquiescence, inducement, or assistance to the employer in using the invention without demanding compensation or other notice of restriction.⁴³

While this should come as no surprise, the shop right continues to be defined as an equitable middle ground. The factors in finding shop right are nearly identical to those considered in determining and implied-in-fact contract to assign and/or hired-to-invent doctrines for requiring outright assignment to the company. Thus, in essentially “assignment light,” the non-transferable shop right license is provided when the facts do not stack up to the fairly substantial levels required to remove all rights in an invention from the employee, but in which the courts do not feel quite right (equity and fairness and all that) leaving the employer with nothing to show for its troubles.

Returning to a theme, when courts can rely on a totality of the circumstances test, they can much more effectively ignore precedent and decide how much they like your client and your facts. An express contract helps remove this decision from the unfettered hands of the courts, and discourage litigation in the first place. Although it is a repetitive thought, while contracts are a hassle, they are probably less burdensome than the problems which will arise if that hassle is set aside.

B. Some Bases for Injunction Stopping Work or Solicitation

1. Non-competition

The first line of attack is likely to be a non-compete agreement, if one exists. While the scope of protection obtainable from non-competes was addressed above, and recognizing that by statute and common law there are definite limits, they still provide a real hammer where they are available. Further, realize that if in Monday morning quarterbacking the non-compete agreement signed 10 years ago, it is determined that it may not be enforceable today, the option exists (as specifically provided in the statute) to reform the

⁴³ *McElmurry*, 995 F.2d at 1582, 27 U.S.P.Q.2d (BNA) at 1134.

agreement to current limits and enforce it to those limits.⁴⁴ While damages for acts prior to reformation may be lost, the critical forward looking injunctive relief under discussion here may still be obtained. An erudite, as well as practical, article on enforcing non-compete agreements in Texas is *Enforcing a Non-Compete* by Larry D. Carlson in the Winter 1996 *Texas Intellectual Property Law Journal*. It is cited at numerous points in this paper, and for the sake of brevity, those interested in additional information in this area are recommended to it.

2. *Non-disclosure*

While Texas and many other states view non-compete agreements as being suspect, nearly all states place great stock and support in the enforceability and value of non-disclosure agreements. Further, although the case of *PepsiCo Inc. v. Redmond*⁴⁵ stirred the pot again, there is in fact a significant line of cases running back to at least the 1960's which have used non-disclosure agreements or breach of a confidential relationship to enjoin a former employee from working for a competitor at all or from working in a particular area, even in the absence of a non-compete agreement.

a. *“Inevitable disclosure” (non-disclosure=non-compete)*

(1) *The “Bought & Paid For” former employee*

In the 1963 case *B.F. Goodrich Co. v. Wohlgemuth*, the Ohio Court of Appeals took what was, on the facts, the simple step of enjoining Donald Wohlgemuth from working on Apollo spacesuits for International Latex Company following his departure from B.F. Goodrich, even though a non-compete agreement did not exist.⁴⁶ Wohlgemuth had been in B.F. Goodrich's pressure-space suit department for almost 8 years with increasing responsibility, and had reached the level of being one of the few top executives and developers in this field of operation. B.F. Goodrich clearly had built up significant trade secret information and know-how

⁴⁴ See TEX. BUS. & COM. CODE ANN. § 15.51(c) (Vernon 2004).

⁴⁵ *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 35 U.S.P.Q.2d (BNA) 1010 (7th Cir. 1995).

⁴⁶ *B.F. Goodrich Co. v. Wohlgemuth*, 192 N.E.2d 99, 137 U.S.P.Q. (BNA) 804 (Ohio Ct. App. 1963).

in this field.⁴⁷ When confronted with the fact that he was taking with him a body of information which belonged to the company and that issues of company loyalty and ethics were involved, Wohlgemuth replied that “loyalty and ethics had their price; insofar as he was concerned, International Latex was paying the price.”⁴⁸

Observing that both under equity and under the signed non-disclosure agreement of Wohlgemuth, Wohlgemuth had the obligation to protect B.F. Goodrich's trade secrets, and that there was clearly a substantial threat that a disclosure of trade secrets would take place⁴⁹ if Wohlgemuth worked for International Latex, the Court enjoined such employment.⁵⁰

(2) *“Inevitable” future acts can be considered imminent threat*

In what was a more difficult case, where the former employee was not broadcasting to the world that his ethics had been satisfied by a bigger paycheck, Du Pont was able to maintain an injunction against American Potash and former employee Hirsch.⁵¹ In a decision based on fiduciary duty to protect a company's trade secrets (not even an express non-disclosure agreement), a Delaware Chancery Court declined to grant summary judgment to dismiss the case and to dissolve a restraining order preventing Hirsch from undertaking any employment with Potash.⁵²

In the *Du Pont* case, Potash had been trying to license the technology and know-how for a specific chemical process from Du Pont. While Du Pont agreed to license the patents, it would not license the know-

⁴⁷ *B.F. Goodrich*, 192 N.E.2d at 101-03, 137 U.S.P.Q. (BNA) at 805-06.

⁴⁸ *B.F. Goodrich*, 192 N.E.2d at 104, 137 U.S.P.Q. (BNA) at 806.

⁴⁹ Although there was no evidence that trade secrets had already been revealed.

⁵⁰ *B.F. Goodrich*, 192 N.E.2d at 105, 137 U.S.P.Q. (BNA) at 807-08.

⁵¹ *E.I. Du Pont De Nemours & Co. v. American Potash & Chem. Corp.*, 200 A.2d 428, 141 U.S.P.Q. (BNA) 447 (Del. Ch. 1964).

⁵² *Du Pont*, 200 A.2d at 437, 141 U.S.P.Q. (BNA) at 453.

how.⁵³ Potash tried to obtain a proprietary piece of equipment used in the process from one of Du Pont's suppliers.⁵⁴ Potash also advertised for employees in the city where one of the key Du Pont plants was located, admittedly looking for someone with experience in the process area.⁵⁵ In response to that ad, Hirsch (a Du Pont employee with knowledge of the admittedly trade secret information) agreed to leave Du Pont and hire on to help Potash set up and run their own plant (a plant which had not been able to successfully run the process after two years of trying).⁵⁶ Hirsch testified that he would consciously work to avoid using his trade secret knowledge of his former employer, and when in sensitive areas confine himself to the use of unrestricted material and to assuring that his underlings' evaluations follow good engineering practice.⁵⁷

Potash argued that there was no basis in the record for any finding that they or Hirsch were guilty of bad faith or that a high degree of probability of disclosure existed.⁵⁸ They further argued that “inevitability” was not capable of present proof or disproof and amounted in substance to a prophecy which should not be considered as a factor in determining whether a substantial threat of unlawful disclosure exists.⁵⁹ In response the court stated as follows:

I have no doubt but that the court is entitled to consider, in judging whether an abuse of confidence is involved, the degree to which disclosure of plaintiff's trade secrets is likely to result from the circumstances surrounding Hirsch's employment by Potash. The defendants say that a finding of “inevitability” would be no more than a prophecy here. Nonetheless, in the context of determining whether a threat of disclosure exists, it is but a finding as to the probable future consequences of a course of voluntary action undertaken by the defendants. Courts are frequently called upon to draw such conclusions based on a weighing of the probabilities, and while a conclusion that a certain result will probably follow may not be

⁵³ *Du Pont*, 200 A.2d at 431, 141 U.S.P.Q. (BNA) at 449.

⁵⁴ *Du Pont*, 200 A.2d at 435, 141 U.S.P.Q. (BNA) at 452.

⁵⁵ *Id.*

⁵⁶ *Du Pont*, 200 A.2d at 430-31, 141 U.S.P.Q. (BNA) at 448-49.

⁵⁷ *Du Pont*, 200 A.2d at 435, 141 U.S.P.Q. (BNA) at 452.

⁵⁸ *Du Pont*, 200 A.2d at 433, 141 U.S.P.Q. (BNA) at 450.

⁵⁹ *Du Pont*, 200 A.2d at 436, 141 U.S.P.Q. (BNA) at 453.

ultimately vindicated, courts are nonetheless entitled to decide or “predict” the likely consequences arising from a given set of facts and to grant legal remedies on that basis. I am satisfied that the degree of probability of disclosure, whether amounting to an inevitability or not, is a relevant factor to be considered in determining whether a “threat” of disclosure exists.⁶⁰

In this manner, the court allowed to stand until full trial an injunction preventing any employment with a particular competitor where there was no non-compete agreement and no non-disclosure agreement.

(3) Inevitable disclosure develops further

In a continuing line of cases, the concept of the imminent threat of trade secret violations due to inevitable disclosure in the new position has been used to restrict or limit a former employee's right to compete. In a district court decision in Michigan, the court held that the circumstances of the former employee's knowledge, departure, and hiring, including previous failed negotiations between the hiring company and the employer/rights holder over the technology, “all lead to an inference that there is an inevitable and imminent danger of disclosure of Allis-Chalmers trade secrets to Continental and use of these trade secrets by Continental.”⁶¹ Based on this the court concluded:

The virtual impossibility of Mr. Wolff performing all of his prospective duties for Continental to the best of his ability, without in effect giving it the benefit of Allis-Chalmers confidential information, makes a simple injunction against disclosure and use of this information inadequate.⁶²

A United States District Court in Ohio also took up the view that an order simply prohibiting the disclosure of proprietary information, confidential information or trade secrets would be impossible to enforce and impossible or certainly impractical to fashion in specific terms and reasonable detail.⁶³ On the way to granting an injunction which, for a period of time, precluded employment with the competitor, the district

⁶⁰ *Id.*

⁶¹ *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645, 654, 151 U.S.P.Q. (BNA) 25, 33 (E.D. Mich. 1966).

⁶² *Id.*

⁶³ *Emery Indus., Inc. v. Cottier*, 202 U.S.P.Q. (BNA) 829, 835 (S.D. Ohio 1978).

court recognized that the parties had at the time of original employment determined not to enter into a non-compete agreement but only a non-disclosure agreement.⁶⁴ Since the court recognized it was constructing a non-compete agreement between the parties post hoc, it required the former employer to pay the defendant as consideration for this agreement and for the defendant's inability to work during the enjoined period. The amount of compensation was between his former compensation and his proposed new compensation for the new employer.⁶⁵

(4) *Texas & The 5th Circuit before PepsiCo*

In *Weed Eater, Inc. v. Dowling*,⁶⁶ the Texas Court of Appeals in Houston considered the case of a Weed Eater executive who left to go to a former customer and competitor of Weed Eater. The district court had granted a temporary injunction against Dowling disclosing trade secrets, but had stopped there. The appeals court held that the district court had abused its discretion in continuing to allow Dowling to work for the new company.⁶⁷ The appeals court stated:

Since the trial court enjoined Dowling from revealing to third parties information relating to the matters above set out, the court necessarily found that Dowling had received confidential information with respect to these matters as a result of his employment by Weed Eater. Dowling has been employed by Hawaiian Motor Company to supervise the production of a device which it formerly purchased from Weed Eater. He set up the assembly line by which the product was produced by Weed Eater. Even in the best of good faith, Dowling can hardly prevent his knowledge of his former employer's confidential methods from showing up in his work. The only effective relief for Weed Eater is to restrain Dowling from working for Hawaiian Motor Company in any capacity related to the manufacture by Hawaiian Motor Company of a flexible line trimming device.⁶⁸

⁶⁴ *Id.* at 836.

⁶⁵ *Id.*

⁶⁶ *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 203 U.S.P.Q. (BNA) 635 (Tex. Civ. App. -- Houston [1st Dist.] 1978, writ ref'd n.r.e.).

⁶⁷ *Weed Eater*, 562 S.W.2d at 902, 203 U.S.P.Q. (BNA) at 637.

⁶⁸ *Id.* (citing *Electronic Data Systems Corp. v. Powell*, 524 S.W.2d 393 (Tex. Civ. App. -- Dallas 1975, writ ref'd n.r.e.); *Grace v. Orkin Exterminating Co.*, 255 S.W.2d 279 (Tex. Civ. App. -- Beaumont 1953, writ ref'd n.r.e.)).

While the appeals court went on to modify the injunction to include a provision restraining Dowling from continuing in his new employment so long as his duties included any activities related to the business of Weed Eater, the water is muddied because Dowling had also signed a non-compete agreement.⁶⁹ Nevertheless, the logic of the appeals court's language would seem to extend further.

The 5th Circuit has taken that step, relying in part on *Dowling*. In *FMC Corp. v. Varco International, Inc.*,⁷⁰ the 5th Circuit reversed a district court decision to deny preliminary injunction against a former employee and his new employer, and granted an injunction against the new employer restricting it from placing or maintaining the former employee in a position that poses an inherent threat of disclosure or use of FMC's trade secrets.⁷¹ In doing so, the 5th Circuit discussed *Dowling* and concluded that:

Given the facts of this case -- that FMC has trade secrets, that Witt has knowledge of at least some of those secrets, and that Witt has been placed in a comparable position with a direct competitor without restriction against using or disclosing FMC's trade secrets -- the fear of irreparable injury is realistic.⁷²

In balancing the hardships, the 5th Circuit concluded as follows:

On the other hand, the injunction will prevent Best [the competitor] from doing only what they already say they will not do. Best's president and Witt both testified that they planned to use no trade secrets that Witt gained from FMC. The president told the court that Witt was hired for his managerial, not technical, skills. The injunction is necessary, however, because Best argues that the items described by FMC as trade secrets do not constitute trade secrets. Therefore, without the injunction, Witt may, out of ignorance of what information constitutes a trade secret, reveal the confidential matters FMC seeks to protect.⁷³

⁶⁹ *Weed Eater*, 562 S.W.2d at 902, 203 U.S.P.Q. (BNA) at 637.

⁷⁰ *FMC Corp. v. Varco Int'l, Inc.*, 677 F.2d 500, 217 U.S.P.Q. (BNA) 135 (5th Cir. 1982).

⁷¹ *FMC*, 677 F.2d at 505, 217 U.S.P.Q. (BNA) at 139.

⁷² *Id.*

⁷³ *Id.*

Hence, while recognizing that the former employee and his new company expressed the best of intentions, the 5th Circuit was not prepared to allow inadvertent/well meaning disclosures either. However, the dispute by the company of what constituted trade secrets must be seen as a key factor in the 5th Circuit's decision.

(5) *PepsiCo Inc. v. Redmond*

The case which has created the most stir in this area was *PepsiCo Inc. v. Redmond*⁷⁴ out of the 7th Circuit in 1995. PepsiCo takes place against the background of the intensely competitive sports drink and new age drink industry. The key knowledge in dispute was of detailed marketing plans and strategies rather than technical matters, but still clearly trade secret information. Redmond had knowledge of, and in some cases had provided input and/or had helped implement, strategic plans, pricing plans and architecture, attack plans for specific markets, and even innovations in selling and delivery systems.⁷⁵ Like the previous cases discussed, the 7th Circuit was very cognizant that the question of threatened or inevitable misappropriation lies “at the heart of a basic tension in trade secret law” reflecting that:

Trade Secret law serves to protect “standards of commercial morality” and “encourage [] invention and innovation” while maintaining “the public interest in having free and open competition in the manufacture and sale of unpatented goods.” Yet that same law should not prevent workers from pursuing their livelihoods when they leave their current positions. ... This tension is particularly exacerbated when a plaintiff sues to prevent not the actual misappropriation of trade secrets but the mere threat that it will occur.⁷⁶

The 7th Circuit also noted that the Illinois Trade Secrets Act, based on the Uniform Trade Secrets Act, plainly permits a court to enjoin the *threat* of misappropriation of trade secrets.⁷⁷ The 7th Circuit concluded that it could enjoin the “inevitable” disclosure of trade secrets.⁷⁸

⁷⁴ *PepsiCo*, 54 F.3d 1262, 35 U.S.P.Q.2d (BNA) 1010 (7th Cir. 1995).

⁷⁵ *PepsiCo*, 54 F.3d at 1265-66, 35 U.S.P.Q.2d (BNA) at 1012-13.

⁷⁶ *PepsiCo*, 54 F.3d at 1268, 35 U.S.P.Q.2d (BNA) at 1015 (citations omitted).

⁷⁷ *Id.* (citing 765 ILL. COMP. STAT. 1065/2(b) (2004); *see also* 765 ILL. COMP. STAT. 1065/3(a) (2004)).

⁷⁸ *PepsiCo*, 54 F.3d at 1269, 35 U.S.P.Q.2d (BNA) at 1015.

With respect to whether such an event was inevitable, the 7th Circuit concluded that Quaker's and Redmond's protestations to the contrary fell "somewhat short of the mark" explaining that:

Again the danger of misappropriation in the present case is not that Quaker threatens to use PCNA's [Pepsi Cola North America Division] secrets to create distribution systems or co-opt PCNA's advertising and marketing ideas. Rather, PepsiCo believes that Quaker, unfairly armed with knowledge of PCNA's plans, will be able to anticipate its distribution, packaging, pricing, and marketing moves. Redmond and Quaker even concede that Redmond might be faced with a decision that could be influenced by certain confidential information that he obtained while at PepsiCo. In other words, PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game. Quaker and Redmond's protestations that their distribution systems and plans are entirely different from PCNA's are thus not really responsive.⁷⁹

Perhaps as important to the 7th Circuit's decision to uphold the injunction was its respect for the district court's factual finding from its review of the evidence that both the Quaker executive's actions in hiring Redmond⁸⁰ and "Redmond's actions in pursuing and accepting his new job demonstrated a lack of candor on their part and proof of their willingness to misuse PCNA trade secrets."⁸¹ The 7th Circuit specifically quoted the district court's express finding that:

Redmond's lack of forthrightness on some occasions, and out and out lies on others, in the period between the time he accepted the position with defendant Quaker and when he informed plaintiff that he had accepted that position leads the court to conclude that defendant Redmond could not be trusted to act with the necessary sensitivity and good faith under the circumstances in which the only practical verification that he was not using plaintiff's secrets would be defendant Redmond's word to that effect.⁸²

In conclusion the 7th Circuit summed up as follows:

[W]hen we couple the demonstrated inevitability that Redmond would rely on PCNA trade secrets in his new job at Quaker with the district court's reluctance to believe that Redmond would refrain from disclosing these secrets in his new position (or that Quaker would ensure

⁷⁹ *PepsiCo*, 54 F.3d at 1270, 35 U.S.P.Q.2d (BNA) at 1017.

⁸⁰ *Id.* Both the district court and the 7th Circuit particularly noted that Quaker seemed to express an unnatural interest in hiring PCNA's employees as all three interviewees for the position Redmond took worked at PCNA.

⁸¹ *Id.*

⁸² *Id.*

Redmond did not disclose them), we conclude that the district court correctly decided that PepsiCo demonstrated a likelihood of success on its statutory claim of trade secret misappropriation.⁸³

(6) *Developing Law*

While the 7th Circuit's decision in *PepsiCo* did not break new ground, it did bring the spotlight to bear on the line of cases it follows. *PepsiCo* also articulated some of the key tensions and balances, and perhaps most importantly began to explicitly discuss what appears to be a fairly consistent element in these cases. To restrict employment or the scope of employment, all of these cases find something extra in addition to the existence of trade secrets, the employee's knowledge of or access to those secrets, and the threat of their disclosure (typically based on overlap between the former job and the new job). The cases seem to look for some "equitable" element of questionable motives or acts on the part of the former employee or the new employer evidencing a lack of reliability on their part.

In *B.F. Goodrich*, the element of Wohlgemuth's admitted having been bought and paid for was so powerful it overwhelmed all of the other aspects of the case. But even in the more subtle cases, the courts would observe, for example, that the hiring employer had tried other means to get the desired information, and upon failing by other means suddenly developed an interest in hiring away an employee. Another example, taken from *PepsiCo*, is questionable acts on the part of the employee in departing. Sometimes, perhaps the sheer identity of responsibilities between jobs combined with the intensity of competition between the companies may be enough. But without some show of at least need of the information on the part of the hiring company or indications that trust is not merited, courts will typically decline to enjoin competition.⁸⁴

⁸³ *PepsiCo*, 54 F.3d at 1271, 35 U.S.P.Q.2d (BNA) at 1017-18.

⁸⁴ See, e.g., *Baxter Int'l, Inc. v. Morris*, 976 F.2d 1189, 1194, 24 U.S.P.Q.2d (BNA) 1429, 1433 (8th Cir. 1992); *Campbell Soup Co. v. Giles*, 47 F.3d 467, 470, 33 U.S.P.Q.2d (BNA) 1916, 1918 (1st Cir. 1995).

A variety of recent cases further reinforce the importance of equity/reliability. For instance, in *Barilla America, Inc. v. Jerry Wright and American Italian Pasta Co.*⁸⁵, plaintiff Barilla filed a motion for a preliminary injunction to bar former employee Wright from joining defendant/competitor American Italian Pasta Co. (AIPC). The U.S. District Court for the Southern District of Iowa granted the motion for preliminary injunction stating:

The case then basically comes down to a determination of Wright's credibility and intent. Several things weigh against Wright's credibility and in favor of a nefarious intent. Most importantly, there is Wright's changed story with respect to the Ambrosecchia CD. In his brief and in court Wright's attorney represented that he still had the actual CD [containing numerous trade secrets] that Ambrosecchia burned for Wright. This story changed, however, when Ambrosecchia put both of the CDs Wright had in court into his computer and showed that neither one was the CD he had made. After Ambrosecchia's testimony, Wright, for the first time, said that what actually happened was that upon receiving the CD from Ambrosecchia he uploaded onto his computer and then put [the CD back] on Ambrosecchia's chair. . . . However, the Court finds Wright's original assertions that he still had the CD and his current testimony to be irreconcilable.

The circumstances surrounding the missing financial statements are also troubling. [Plaintiff's HR Manager] Houser testified that when she searched Wright's office she found that the January, February, March, and April financial statements were missing. Wright testified that he threw them away in an effort to clean up his office on his last day. However, Houser testified that the remaining financial statements were in a drawer and that all of the 2001 statements were still there.

Based on this evidence, the Court finds that a threat of disclosure does exist. Two items containing trade secret information have still not been located and two items have not yet been produced. And, unfortunately, there are simply too many indications that Wright may use this information to further his position at AIPC.⁸⁶

In one last example, *Merck & Co. v. Gary Lyon and Glaxo Wellcome, Inc.*⁸⁷, Merck filed a motion for preliminary injunction to prevent former employee Lyon from joining defendant/competitor Glaxo Wellcome. The court ultimately granted the injunction based on plaintiff's claim of inevitable disclosure of trade secrets,

⁸⁵ *Barilla America, Inc. v. Jerry Wright and American Italian Pasta Co.*, 2002 U.S. Dist. LEXIS 12773 (S.D. Iowa 2002).

⁸⁶ *Barilla America, Inc. v. Jerry Wright and American Italian Pasta Co.*, 2002 U.S. Dist. LEXIS 12773 at 31-32 (S.D. Iowa 2002).

⁸⁷ *Merck & Co. Inc. v. Gary Lyon and Glaxo Wellcome, Inc.*, 941 F.Supp. 1443 (M.D.N.C. 1996).

noting Lyon's misrepresentations to the plaintiff regarding his employment with Glaxo Wellcome in an effort to obtain a better severance package for himself.

Lyon's misrepresentations do provide a basis for questioning his ability to keep his word with respect to the confidentiality agreement he has with plaintiffs. That is, if Lyon would misrepresent the truth in order to gain more money through a severance package, he might also find that the temptation to succeed in his career would be too much for him to ignore the confidential information he has about plaintiffs' operations. Therefore, the Court finds that some type of limited injunction would be appropriate.⁸⁸

For further support of its position, the Merck court stated that a "former employee's 'lack of forthrightness both in his activities before accepting his job . . . and in his testimony' were factors supporting the court's finding that the threatened misappropriation was real."⁸⁹

Thus, caselaw since *PepsiCo* has continued to highlight the relevance and importance of equity/reliability. Elements of questionable motives, elements of deception or acts on the part of the former employee or the new employer evidencing a lack of reliability on their part are considered by courts in assessing the risk of disclosure by the employee. Although this may be viewed as merely an additional factor in evaluating how great the "threat" of disclosure is, some commentators are treating this as a separate element of proof.⁹⁰ However, regardless of whether treated as an independent element or an important factor, considerations of equity/reliability are recurrent. Therefore, to argue these cases on behalf of a spurned employer, it is apparent that the more of this "equitable" reliability component one can present, the better one's chances of obtaining stiffer and broader relief.

The other area of developing caselaw has addressed whether this type of radical relief should be granted at all. Several states, including California and Louisiana have statutes prohibiting non-compete agreements. Traditionally, these states have chosen to favor public policies in support of employee mobility

⁸⁸ *Merck & Co. Inc. v. Gary Lyon and Glaxo Wellcome, Inc.*, 941 F.Supp. 1443, 1461 (M.D.N.C. 1996).

⁸⁹ *Merck & Co. Inc. v. Gary Lyon and Glaxo Wellcome, Inc.*, 941 F.Supp. 1443, 1461-1462 (M.D.N.C. 1996) (quoting *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1267 (7th Cir. 1995)).

⁹⁰ See, e.g., Terrence P. McMahon et al., *Inevitable Disclosure: Not so Sure in the West*, NATIONAL L.J., p.C35 (May 12, 1997).

free of encumbering restrictions. However, following *PepsiCo*, there were questions in the legal community about whether these states would recognize inevitable disclosure and adopt the *PepsiCo* holding.

With respect to Louisiana prior to *PepsiCo*, a United States District Court interpreting Louisiana law in 1967 believed this relief was not available explaining, in dicta, as follows:

While it does not appear here that the disclosure of confidential information by Mr. Zumpe will inevitably result from his employment by Reily, even if this were the consequence, no remedy could be afforded. For Louisiana has made a legislative determination, binding on this court as it is on the courts of Louisiana, that prevents enforcement even of an express covenant not to compete, let alone an implied obligation not to do so. If this imperils the ability of manufacturers having plants in Louisiana to insulate their trade secrets, that is the result of Louisiana's policy to protect the employee from what it considers to be an improper bargain even where he has expressly covenanted not to compete.⁹¹

Since *PepsiCo*, Louisiana courts have not specifically addressed the misappropriation of trades secrets based on inevitable disclosure. Thus, in Louisiana it remains to be seen whether the inevitable disclosure doctrine outlined in *PepsiCo* will impact the interpretation of Louisiana law. Inevitable disclosure may continue to be viewed in company with un-favored non-compete's or may somehow be viewed as a necessary extension of the more favored protections of non-disclosure agreements and confidential relationships.⁹²

Since *PepsiCo*. California has continued its stance against non-compete agreements and has refused to recognize the theory of inevitable disclosure. For instance, in *Globespan, Inc. v. John O'Neill*,⁹³ the U.S. District Court for the Central District of California held that “the Central District of California has considered and rejected the inevitable disclosure doctrine.”⁹⁴ In *Bayer Corp. v. Roche Molecular Sys., Inc.*⁹⁵, the US District Court for the Northern District of California clearly stated that:

⁹¹ *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 265, 152 U.S.P.Q. (BNA) 731, 739 (E.D. La. 1967).

⁹² See, e.g., James A. DiBoise & David J. Berger, *When Disclosure is 'Inevitable,' Liability is Not*, NATIONAL L.J., p.C30 (May 20, 1996); Terrence P. McMahon et al., *Accepting the Inevitable*, LOS ANGELES DAILY J., p.S26 (January 27, 1997); Terrence P. McMahon et al., *Inevitable Disclosure: not so Sure in the West*, NATIONAL L.J., p.C35 (May 12, 1997); David J. Berger et al., *Inevitable Disclosure Law Remains Unsettled*, NATIONAL L.J., p.C38 (May 12, 1997).

⁹³ *Globespan, Inc. v. John O'Neill*, 151 F.Supp.2d 1229 (C.D. Cal. 2001).

⁹⁴ *Globespan, Inc. v. John O'Neill*, 151 F.Supp.2d 1229, 1235 (C.D. Cal. 2001).

The theory of “inevitable disclosure” is not the law in California and, at trial, plaintiff will have to demonstrate actual use or disclosure, or actual threat thereof. For the purposes of a preliminary injunction, under California law, the theory of inevitable disclosure does not supply the proof needed to establish a probability of success on the merits nor does it suffice to raise serious questions about actual use or threat.⁹⁶

Thus, although California law recognizes the traditional claim for misappropriation of trade secrets based on actual use or disclosure of a trade secret, it does not recognize misappropriation of trade secrets based on inevitable disclosure. The same can be said for the state of Maryland which has held that “No court interpreting the provisions of [Maryland Uniform Trade Secrets Act] has applied the theory of ‘inevitable disclosure.’”⁹⁷

In those states adopting the doctrine of inevitable disclosure, the field is open for employers, and holds the potential for protection against competition by former employees even in the absence of a non-compete agreements. For this reason alone, at least for the near future, it will be surprising to see cases filed against departing employees that do not make arguments under this cause of action.

b. Trade Secret - the Punishment that Extends

Of course, some times the “inevitable” has already happened and the trade secrets have been provided by the former employee and are in use by your competitor. In this respect, Texas has significant traditions of rights-holder friendly decisions on injunctions that provide injunctions of unlimited or extended duration.⁹⁸ Lead time injunctions may often be usable to stop the competitor for the length of time it would have taken them to develop the trade secret on their own.⁹⁹ However, courts in Texas often still exercise their discretion

⁹⁵ *Bayer Corp. v. Roche Molecular Sys.*, 72 F.Supp.2d 1111 (N.D.Ca. 1999).

⁹⁶ *Bayer Corp. v. Roche Molecular Sys.*, 72 F.Supp.2d 1111, 1112 (N.D. Cal. 1999).

⁹⁷ *William LeJeune v. Coin Acceptors, Inc.*, 381 Md. 288, 320 (Md. App. 2003) (citing *Padco Advisors, Inc. v. Omdahl*, 179 F. Supp. 2d 600, 611 (D. Md. 2002) (“The doctrine of inevitable disclosure has not been expressly adopted by the Maryland state courts.”)).

⁹⁸ *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 117 U.S.P.Q. (BNA) 466 (Tex. 1958), *cert. denied*, 358 U.S. 898 (1958); *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv. Co.*, 314 S.W.2d 782, 117 U.S.P.Q. (BNA) 471 (Tex. 1958), *cert. denied*, 368 U.S. 898 (1958).

⁹⁹ *See, e.g., Bryan v. Kershaw*, 366 F.2d 497, 499, 151 U.S.P.Q. (BNA) 148, 149 (5th Cir. 1966) (affirming, under Texas law, a decision from the Northern District of Texas granting an injunction “running

to provide longer periods of injunctive relief, frequently citing the concept that while the thieves possibly *could* have developed the information independently in a certain period, the answer is that *they did not elect* to do so.¹⁰⁰ Keep in mind that in *Hyde Corp. v. Huffines*, the Texas Supreme Court knowingly supported an injunction of unlimited duration, although the trade secret had become publicly available after it was misappropriated. While any company on the street would have the right to use the former trade secret, the Texas Supreme Court declined to allow this change in status, which occurred after the theft, to excuse the thief's conduct.¹⁰¹ As a result, a permanent injunction against such usage by the thief was upheld by the Texas Supreme Court.¹⁰² Although district courts may be less likely to enter a permanent injunction in such situations, *Hyde v. Huffines* and *K & G v. G & G* are still regularly cited¹⁰³ and by their presence keep the bar on availability and length of injunctive relief in trade secret matters at a very respectable level.

3. Solicitation

As discussed in Sections II.B.3. & II.B.4. above, even in the event a full non-compete is not upheld, some success may be had enforcing anti-solicitation agreements, both of company customers and of company employees. Effectively, even though the former employee may be allowed to be in the same industry, they are at least severely restricted in their efforts to steal customers and other employees out from under the

for the time found necessary to remove the competitive advantage gained through the illegally used trade secrets”).

¹⁰⁰ See, e.g., *Thermotics, Inc. v. Bat-Jac Tool Co.*, 541 S.W.2d 255, 260-61, 193 U.S.P.Q. (BNA) 249, 253 (Tex. Civ. App. -- Houston [1st Dist.] 1976, *no writ*); *Garth v. Staktek Corp.*, 876 S.W.2d 545, 549 (Tex. App. -- Austin 1994, *no writ*).

¹⁰¹ *Hyde*, 314 S.W.2d at 778, 117 U.S.P.Q. (BNA) at 468.

¹⁰² *Hyde*, 314 S.W.2d at 780, 117 U.S.P.Q. (BNA) at 470.

¹⁰³ See, e.g., *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593 (Tex. App. -- Amarillo 1995, *no writ*); *Garth v. Staktek Corp.*, 876 S.W.2d 545, 549 (Tex. App. -- Austin 1994, *no writ*); *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548 (Tex. App. -- Dallas 1993, *no writ*); *Gonzales v. Zamora*, 791 S.W.2d 258 (Tex. App. -- Corpus Christi 1990, *no writ*); *Picker Int'l, Inc. v. Blanton*, 756 F. Supp. 971, 17 U.S.P.Q.2d (BNA) 1036 (N.D. Tex. 1990); *American Derringer Corp. v. Bond*, 924 S.W.2d 773 (Tex. App. -- Waco 1996, *no writ*).

company. Enforcement of anti-solicitation agreements provides a more balanced approach which may hold more appeal for a judge on the fence. Enforcing an anti-solicitation agreement allows the former employee to use his skills in the industry they were developed for, while still providing some protection to the company and to its proprietary information. Because this may provide a “split the baby” alternative for a judge otherwise inclined to deny relief, it may be as prudent to include these causes of action in litigation with a former employee as it is to include them in the original employment agreements.

4. *Practical Considerations*

So what does an employer do in a practical sense when a key employee has just moved on to the closest competitor?¹⁰⁴ To stop the activities of the employee and his or her new sponsor, one looks to the contracts in place, the fiduciary duties of the employee, and the dangers of inherent disclosure just referred to.

In a high percentage of the disputes which have been discussed, diversity jurisdiction would be needed to find the way into federal court. But where the real desire is quick action, a Temporary Restraining Order (“TRO” or other emergency relief), state court may be the preferred venue anyway for greater willingness to grant speedy preliminary relief.

Certainly relief should be sought quickly, particularly if draconian measures are desired. It is hard to argue about the incredibly immense and irreparable harm which will be suffered, when a company has sat on its rights for weeks before taking action. At the least, early communication with the company which has hired away the employee, making sure they have been informed of the employee's obligations, will place them on notice of both potential breaches and your vigilance regarding the same.

Following entry of a TRO, of course, rapid discovery must be done to lock down the position and provide ammunition for a hearing on temporary or preliminary injunctive relief. The scope and tenor of this discovery may also provide a chance to establish the seriousness of commitment of the company to the fight.

¹⁰⁴ *Again see generally*, Gale R. Peterson, *Pursuit of the Inventor-Employee*, presented at the Texas State Bar IP Section Advanced Intellectual Property Law Seminar in Santa Fe, New Mexico July 24-25, 1997; Larry D. Carlson, *Enforcing a Non-Compete*, 4 TEX. INTELL. PROP. L.J. 149, 154-57 (1996).

While often matters will resolve soon after a decision based on the hearing for temporary injunction, full blown litigation may ensue, with property sought as well as damages and more permanent injunctive relief.

The importance of the employee and the information known by the employee, combined with the identity of the competitor to which he or she has gone, should help define both the level of threat presented and correspondingly the investment desired in litigation about such a threat. While business solutions are often desirable, the combination of personal feelings and close competitors often drive this type of litigation long past the level of expense rationally based on the value in dispute. Commonly, the desire is to make an example of the departing party to discourage like activities in the future, as well as to salve corporate pride. These are certainly acceptable goals for a litigation, as long as thorough consideration and a firm decision (preferably in writing) recognizes the cost which will be incurred to reach these goals.

5. *Criminal Theft of Trade Secrets*

While not necessarily providing direct injunctive relief, the threat and following institution of criminal prosecution may act to stop present activities and discourage future activities by the accused or by others as a practical matter. The Economic Espionage Act of 1996 provides federal prosecutors with a hefty stick and companies with additional options for generating criminal prosecution against employees who steal trade secrets or competitors who knowingly hire and use such employees to obtain trade secrets.¹⁰⁵ In combination with various state criminal trade secret acts, the tools for criminal prosecution are in place and there is a growing willingness among prosecutors to take on these types of actions.¹⁰⁶

¹⁰⁵ See generally, James H.A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177 (1996).

¹⁰⁶ For example, an assistant district attorney from Williamson County attended the Texas State Bar's Advanced IP Seminar in Santa Fe in the 1990's with the stated intent of letting people know he was ready to pursue those who would try to steal from his area's growing group of high tech companies.

While Section 1831 of the Federal Statute is aimed at espionage on behalf or for the benefit of foreign governments, section 1832 represents a more general statute criminalizing the theft and use of trade secrets.¹⁰⁷ The section would cover those who knowingly engage in misappropriation with intent to convert a trade secret to the economic benefit of anyone other than the owner, and intending or knowing that the offense will injure the owner of the trade secret.¹⁰⁸ The penalties available for violation of section 1832 include a term of up to 10 years in prison and fines of up to 5 million dollars for corporations convicted,¹⁰⁹ with the suggestion that the amount of the fine for significant injury to be set at the greater of twice the value of the loss to the trade secret owner or twice the gain to the infringer.¹¹⁰ Forfeiture of defendant's property is also an option,¹¹¹ although some tricky areas may arise as the seizure grants title in the property to the government, requiring additional red tape in uncertainty to vest needed items (such as the stolen trade secrets) back in the hands of the trade secret holder.¹¹²

In a practical sense, criminal prosecution provides several advantages to a company. First, much of the cost ends up being borne by the government. Second, groundwork can be laid simplifying a later civil suit. Finally, a clear message is sent to competitors and employees that potential felony enforcement is a usable and used weapon by the company.

On the other side of the coin, the burdens of proof will obviously be higher in a criminal proceeding. The company has less control over starting the case, managing the case, and later stopping it if a business

¹⁰⁷ 18 U.S.C. § 1831-32 (2004).

¹⁰⁸ 18 U.S.C. § 1831(a) (2004).

¹⁰⁹ 18 U.S.C. § 1832 (2004).

¹¹⁰ 142 CONG. REC. S12213 (daily ed. Oct. 2, 1996) (detailing the suggestion in the record that fines will be considered under 18 U.S.C. § 3571(d)).

¹¹¹ *See* 18 U.S.C. § 1834(b) (2004).

¹¹² *See generally*, James H.A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177, 202-203 (1996).

solution becomes more desirable. The criminal case may actually stay and will probably proceed faster than a parallel civil case. Finally, the compensation goes to the government rather than to the company.

All things considered, in a high percentage of instances involving trade secret theft, the desire to punish the thief and discourage similar activity seems to be more in the forefront of the thinking of those running the company than the underlying compensation. If these are the more important factors, efforts to refer the case for criminal prosecution may be well worth the relatively small investment of time and energy.

VI. CONCLUSION

Continuing tension exists between the employer's desire to protect its rights and secrets from its competitors and the employee's desire to use the general skills and knowledge and the fruits of his or her labor in the place where he or she is most happy to work. The wise employer will plan well in advance to protect against the loss of varied rights through departure of employees or by way of property rights which accrue to the benefit of the employee when proper planning would have had them vesting in the employer. The wise employer will also keep in mind that the best way to protect against many of these losses is not only to use the stick of restricting employee's actions when they leave, but also to use the carrot of creating an environment which rewards and encourages employees to stay.

Of course, this paper has been written from the prospective of the employer, contracting with the employee. There are certainly times when the authors have represented the employees hounded by their unreasonable and paranoid former bosses at the other end of this spectrum. In many ways the law and basic tenets are the same. Documenting and paper trailing events and contacts when preparing to leave and immediately after leaving may prove critical to proving innocence of both intent and action. Careful consultation and thought about actions before they are taken is invaluable for a departing employee. Leaving behind all documents, information, and even memorabilia items is often the wisest course to take. As a departing employee, or as a company hiring and bringing on an employee recently departed from a competitor, these basic ideas and concepts can often help avoid or lessen the disputes bringing about the

litigation. In this way, the new life with the new firm may not become tainted with the hellish after effects of the end of life in the old.