INTELLECTUAL PROPERTY AND INNOVATION AMERICAN INN OF COURT

Thursday, November 15, 2018

Inn Luncheon Roundtable

CLE Materials

Topic
Intellectual Property in the Employment Context

Facilitated By
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IP and Your Employees

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The Changing Landscape of Employment

Today's workforce…

- Spans generations with differing cultural norms;
- Expects greater control/influence over their work time, space, and resources;
- Is tech-driven;
- Is more likely to freelance, moonlight, and/or start their own company.

The 'On-Demand'/'Gig' Economy

Millennials = Expect Flexible Work Hours

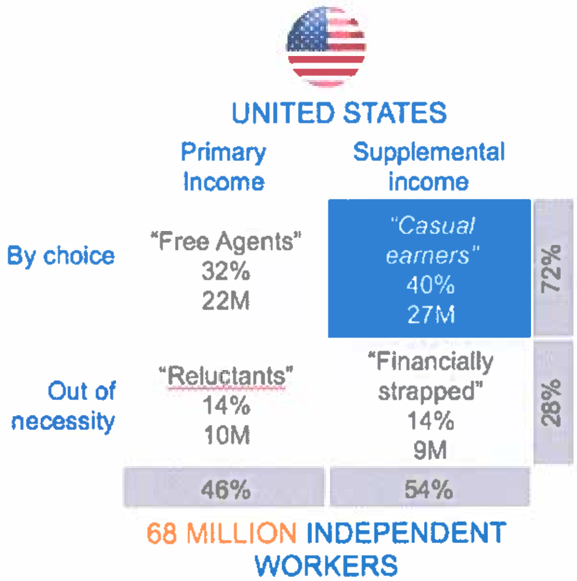
- **Many = expect to be mobile** & work from home / office / cafes at will.
- **~20% = identify as 'night owls'** (often work outside normal business hours).
- **38% = freelancing** vs. 32% among those over 35 years old.
- **32% = believe they will be working 'mainly flexible hours'** in future.

Millennials = Tech Savvy

- **34% = prefer to collaborate online** at work as opposed to in-person or via phone (vs. 19% for older generations).
- **45% = use personal smartphones for work purposes** (vs. 18% for older generations).
- **41% = likely to download applications to use for work purposes in next 12 months & use their own money to pay for them** (vs. 24% for older generations).

Source: Kleiner Perkins, Internet Trends 2018

The 'On-Demand'/'Gig' Economy



Source VoxEU

Concepts that are being re-framed:

- "Own time" vs. "company time";
- "Own resources" vs. "company resources"; ditto "facilities"
- "Related to company's business"; ditto "competitive with."

Source VoxEU

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Patents & Employees

Patent Rights

Ownership rights begin with the INVENTOR:

– the ownership of the patent initially vests in the named inventor(s). 35 USC §101, 102; *Stanford v. Roche,* 131 S. Ct. 2188 (S. Ct. 2011); *Kennedy v. Hazelton*, 128 U.S. 667, 672, (1888); *Beech Aircraft Corp. v. EDO Corp.*, 990 F.2d 1237, 1248, (Fed. Cir. 1993)

– Patents are assignable by an instrument in writing transferring an alienable ownership interest in the patent or application. 35 U.S.C. 261.

Common Law Shop Rights

In the absence of a written agreement between an employee and his/her employer, courts will generally hold that:

- confidential information and inventions or other creations made during the course of employment as a normal part of job duties belong to the employer;
- inventions made by the employee separate from the job, using the employee's own time and materials, will generally belong to the employee (absent fraud, related company work of which the employee might be aware, or other special circumstances); and
- inventions not related to work duties, but created with some nontrivial use of the employer's time, funds or materials still belong to the employee, but the employer has limited rights to exploit the invention without payment of royalties or other compensation.

Compare/Contrast:

Sample pro-Company provision in an employee IP agreement:

Inventions: Employee hereby assigns and agrees to assign to Company all of Employee's right, title, and interest in and to any discoveries, inventions, and improvements (each an "Invention" and collectively, "Inventions"), whether patentable or not, that Employee makes, conceives, or suggests, either alone or jointly with others, while employed by Company. Any invention that was made, conceived, or suggested by Employee, either solely or jointly with others, within one (1) year following termination of employment with Company, and that pertains to any Confidential Information or business activity of Company will be irrebuttably presumed to have been made, conceived, or suggested in the course of Employee's employment and with the use of the time, materials or facilities of Company.

Compare/Contrast:

California Labor Code Section 2870 (reserves certain rights to an employee):

(A) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actually or demonstrably anticipated R&D of the employer.

(2) Results from any work performed by the employee for the employer.

(A) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from bring required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

States with laws related to employee inventions*:

– California (California Labor Code §2870)

– Delaware (Delaware Code Annotated, Title 19, § 805)

– Illinois (Illinois Revised Statutes, Chapter 140, §§ 301-303)

– Kansas (Kansas Statutes Annotated §§ 44-130)

– Minnesota (Minnesota Statutes Annotated § 181.78)

– New Jersey (New Jersey Statutes Unannotated §34:1B-265)

– North Carolina (North Carolina General Statutes §§ 66-57.1, 66- 57.2)

– Utah (Utah Code Annotated §§ 34-39-2, 34-39-3), and

– Washington (Washington Revised Code Annotated §§ 49.44.140, 49.44.150)

*Full text provided in attached Appendix.

James v. J2 Cloud Services

887 F.3d 1368 (Fed. Circ. 2018)

Background: Purported inventor brought action against assignee of patent for converting facsimile or voicemail messages into digital representations, alleging he was the sole inventor of the subject matter claimed in the patent. District Court dismissed the action. Purported inventor appealed.

Holding: Reversed and remanded. (1) Purported inventor had standing to bring correction-of-inventorship claim; and (2) Software development agreement (SDA) between partnership of professional software developers and corporation did not support a hired-to-invent inference.

Practice Note: An assignment of "patent rights" must be clearly stated the SDA; will not be inferred from agreement to own/assign rights to "code, compiled software, and copyright interests." Note limitations on "hired to invent" doctrine.

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Copyrights, Trademarks & Employees

17 U.S.C. §101 - Work Made for Hire

A "work made for hire" is—

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities

"Scope of Employment"

- For an employee's work to be considered a work made for hire, the work must be created within the employee's "scope of employment."
- *Community for Creative Non-Violence v. Reed (S. Ct.)*: Congress intended these terms "to be understood in light of agency law," which governs employer-employee relationships.
- Questions to consider:
  - What skill was required to create the work?
  - Where was the work created?
  - Did the hiring party provide the space, materials, or tools to create the work?
  - How long was the relationship between the parties?
  - Did the hiring party have the right to assign other projects to the creator?
  - Could the hiring party direct the creator when and how long to work?
  - How was the creator paid? Who paid taxes? Did creator receive employee benefits?
  - Does the creator have his or her own business?
  - Was the creator able to hire and pay assistants?
  - Was the work created as part of the regular business hours of the hiring party?
  - Was the work created pursuant to the creator's usual tasks?
  - Was the work created during the creator's authorized work time?

784 8th Street Corp. v. Ruggiero

2018 Westlaw 1786989 (EDNY, Jan. 10, 2018)

- Background: Employer filed complaint alleging infringement of its registered and unregistered trademarks and copyrights against former employee. Employer sought injunctive relief and damages. Employee had filed for copyright and trademark registrations as to the name and logo used by Employer, as well as other material incorporating those marks, claiming that she designed the logo.

- Holding: District Court held that Employer was owner of the IP rights in the logo and materials under the "work made for hire" doctrine of the Copyright Act. The fact that the employee received a copyright registration does not overcome this.

Practice Note: Important for employment status and scope of employment to be clear and uncontroverted.

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Trade Secrets & Employees

In Re Document Technologies Litigation

275 F. Supp.3D 454 (SDNY 2017)

Background: Global provider of electronic discovery services for law firms filed suit against competitor and four members of sales staff who had resigned to work for competitor, alleging tortious interference, misappropriation of trade secrets, and breach of employment agreements, in violation of state and federal law. Former employer moved for preliminary injunction.

Holding: Motion for Preliminary Injunction denied. Former employer was unlikely to succeed on the merits of any of the claims, and even if former employer was likely to succeed, it failed to demonstrate irreparable harm.

Practice Note: Recognize limitations of restrictive covenants.

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Appendix

State Statutes Regarding Employee Rights to Inventions

Delaware (Delaware Code Annotated, Title 19, § 805)

§ 805 Employee's right to certain inventions.

Any provision in an employment agreement which provides that the employee shall assign or offer to assign any of the employee's rights in an invention to the employee's employer shall not apply to an invention that the employee developed entirely on the employee's own time without using the employer's equipment, supplies, facility or trade secret information, except for those inventions that:

(1) Relate to the employer's business or actual or demonstrably anticipated research or development; or

(2) Result from any work performed by the employee for the employer.

To the extent a provision in an employment agreement purports to apply to the type of invention described, it is against the public policy of this State and is unenforceable. An employer may not require a provision of an employment agreement made unenforceable under this section as a condition of employment or continued employment.

Illinois (Illinois Revised Statutes, Chapter 140, §§ 301-303)

(765 ILCS 1060/1) (from Ch. 140, par. 301)

Sec. 1. This Act shall be known and may be cited as the "Employee Patent Act"

(765 ILCS 1060/2) (from Ch. 140, par. 302)

Sec. 2. Employee rights to inventions - conditions)

(1) A provision in an employment agreement which provides that an employee shall assign or offer to assign any of the employee's rights in an invention to the employer does not apply to an invention for which no equipment, supplies, facilities, or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless (a) the invention relates (i) to the business of the employer, or (ii) to the employer's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this State and is to that extent void and unenforceable. The employee shall bear the burden of proof in establishing that his invention qualifies under this subsection.

(2) An employer shall not require a provision made void and unenforceable by subsection (1) of this Section as a condition of employment or continuing employment. This Act shall not preempt existing common law applicable to any shop rights of employers with respect to employees who have not signed an employment agreement.

(3) If an employment agreement entered into after January 1, 1984, contains a provision requiring the employee to assign any of the employee's rights in any invention to the employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless (a) the invention relates (i) to the business of the employer, or (ii) to the employer's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by the employee for the employer.

(765 ILCS 1060/3) (from Ch. 140, par. 303)

Sec. 3. This Act takes effect upon becoming a law.

Kansas (Kansas Statutes Annotated §§ 44-130)

44-130. Employment agreements assigning employee rights in inventions to employer; restrictions; certain provisions void; notice and disclosure. (a) Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of the employee's rights in an invention to the employer shall not apply to an invention for which no equipment, supplies, facilities or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless:

(1) The invention relates to the business of the employer or to the employer's actual or demonstrably anticipated research or development; or

(2) the invention results from any work performed by the employee for the employer.

(b) Any provision in an employment agreement which purports to apply to an invention which it is prohibited from applying to under subsection (a), is to that extent against the public policy of this state and is to that extent void and unenforceable. No employer shall require a provision made void and unenforceable by this section as a condition of employment or continuing employment.

(c) If an employment agreement contains a provision requiring the employee to assign any of the employee's rights in any invention to the employer, the employer shall provide, at the time the agreement is made, a written notification to the employee that the agreement does not apply to an invention for which no equipment, supplies, facility or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless:

(1) The invention relates directly to the business of the employer or to the employer's actual or demonstrably anticipated research or development; or

(2) the invention results from any work performed by the employee for the employer.

(d) Even though the employee meets the burden of proving the conditions specified in this section, the employee shall disclose, at the time of employment or thereafter, all inventions being developed by the employee, for the purpose of determining employer and employee rights in an invention.

Minnesota (Minnesota Statutes Annotated § 181.78

181.78 Agreements; terms relating to inventions.

Subdivision 1. **Inventions not related to employment.** Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of the employee's rights in an invention to the employer shall not apply to an invention for which no equipment, supplies, facility or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (1) which does not relate (a) directly to the business of the employer or (b) to the employer's actual or demonstrably anticipated research or development, or (2) which does not result from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable.

Subdivision 2. **Effect of subdivision 1.** No employer shall require a provision made void and unenforceable by subdivision 1 as a condition of employment or continuing employment.

Subdivision 3. **Notice to employee.** If an employment agreement entered into after August 1, 1977 contains a provision requiring the employee to assign or offer to assign any of the employee's rights in any invention to an employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention for which no equipment, supplies, facility or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (1) which does not relate (a) directly to the business of the employer or (b) to the employer's actual or demonstrably anticipated research or development, or (2) which does not result from any work performed by the employee for the employer.

North Carolina (North Carolina General Statutes §§ 66-57.1, 66- 57.2)

66-57.1. Employee's right to certain inventions.

Any provision in an employment agreement which provides that the employee shall assign or offer to assign any of his rights in an invention to his employer shall not apply to an invention that the employee developed entirely on his own time without using the employer's equipment, supplies, facility or trade secret information except for those inventions that (i) relate to the employer's business or actual or demonstrably anticipated research or development, or (ii) result from any work performed by the employee for the employer. To the extent a provision in an employment agreement purports to apply to the type of invention described, it is against the public policy of this State and is unenforceable. The employee shall bear the burden of proof in establishing that his invention qualifies under this section.

66-57.2. Employer's rights.

An employer may not require a provision of an employment agreement made unenforceable under G.S. 66-57.1 as a condition of employment or continued employment. An employer, in an employment agreement, may require that the employee report all inventions developed by the employee, solely or jointly, during the term of his employment to the employer, including those asserted by the employee as nonassignable, for the purpose of determining employee or employer rights. If required by a contract between the employer and the United States or its agencies, the employer may require that full title to certain patents and inventions be in the United States.

Utah (Utah Code Annotated §§ 34-39-2)

34-39-2. Definitions.

As used in this chapter:

(1) "Employment invention" means any invention or part thereof conceived, developed, reduced to practice, or created by an employee which is

(a) conceived, developed, reduced to practice, or created by the employee:

(i) within the scope of his employment;

(ii) on his employer's time; or

(iii) with the aid, assistance, or use of any of his employer's property, equipment, facilities, supplies, resources, or intellectual property;

(b) the result of any work, services, or duties performed by an employee for his employer;

(c) related to the industry or trade of the employer; or

(d) related to the current or demonstrably anticipated business, research, or development of the employer.

(2) "Intellectual property" means any and all patents, trade secrets, know-how, technology, confidential information, ideas, copyrights, trademarks, and service marks and any and all rights, applications, and registrations relating to them.

Utah (Utah Code Annotated §§ 34-39-3)

34-39-3. Scope of act -- When agreements between an employee and employer are enforceable or unenforceable with respect to employment inventions -- Exceptions.

(1) An employment agreement between an employee and his employer is not enforceable against the employee to the extent that the agreement requires the employee to assign or license, or to offer to assign or license, to the employer any right or intellectual property in or to an invention that is:

(a) created by the employee entirely on his own time; and

(b) not an employment invention.

(2) An agreement between an employee and his employer may require the employee to assign or license, or to offer to assign or license, to his employer any or all of his rights and intellectual property in or to an employment invention.

(3) Subsection (1) does not apply to:

(a) any right, intellectual property or invention that is required by law or by contract between the employer and the United States government or a state or local government to be assigned or licensed to the United States; or

(b) an agreement between an employee and his employer which is not an employment agreement.

(4) Notwithstanding Subsection (1), an agreement is enforceable under Subsection (1) if the employee's employment or continuation of employment is not conditioned on the employee's acceptance of such agreement and the employee receives a consideration under such agreement which is not compensation for employment.

(5) Employment of the employee or the continuation of his employment is sufficient consideration to support the enforceability of an agreement under Subsection (2) whether or not the agreement recites such consideration.

(6) An employer may require his employees to agree to an agreement within the scope of Subsection (2) as a condition of employment or the continuation of employment.

(7) An employer may not require his employees to agree to anything unenforceable under Subsection (1) as a condition of employment or the continuation of employment.

(8) Nothing in this chapter invalidates or renders unenforceable any employment agreement or provisions of an employment agreement unrelated to employment inventions

Washington (Washington Revised Code Annotated §§ 49.44.140, 49.44.150)

Requiring assignment of employee's rights to inventions—Conditions.

(1) A provision in an employment agreement which provides that an employee shall assign or offer to assign any of the employee's rights in an invention to the employer does not apply to an invention for which no equipment, supplies, facilities, or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless (a) the invention relates (i) directly to the business of the employer, or (ii) to the employer's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable.

(2) An employer shall not require a provision made void and unenforceable by subsection (1) of this section as a condition of employment or continuing employment

(3) If an employment agreement entered into after September 1, 1979, contains a provision requiring the employee to assign any of the employee's rights in any invention to the employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless (a) the invention relates (i) directly to the business of the employer, or (ii) to the employer's actual or demonstrably anticipated research or development, or (b) the invention results from any work preformed [performed] by the employee for the employer

Requiring assignment of employee's rights to inventions—Disclosure of inventions by employee.

Even though the employee meets the burden of proving the conditions specified in RCW 49.44.140, the employee shall, at the time of employment or thereafter, disclose all inventions being developed by the employee, for the purpose of determining employer or employee rights. The employer or the employee may disclose such inventions to the department of employment security, and the department shall maintain a record of such disclosures for a minimum period of five years.

New Jersey (New Jersey Code Annotated §§ 34:1B-265)

34:1B-265 Employee rights to certain inventions .

1. a.

(1) Any provision in an employment contract between an employee and employer, which provides that the employee shall assign or offer to assign any of the employee's rights to an invention to that employer, shall not apply to an invention that the employee develops entirely on the employee's own time, and without using the employer's equipment, supplies, facilities or information, including any trade secret information, except for those inventions that:

(a) relate to the employer's business or actual or demonstrably anticipated research or development; or

(b) result from any work performed by the employee on behalf of the employer.

(2) To the extent any provision in an employment contract applies, or intends to apply, to an employee invention subject to this subsection, the provision shall be deemed against the public policy of this State and shall be unenforceable.

b. No employer shall require a provision made void and unenforceable by this act as a condition of employment or continued employment. Nothing in this act shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for:

(1) disclosure, provided that any disclosure shall be received in confidence, of all of an employee's inventions made solely or jointly with others during the term of the employee's employment;

(2) a review process by the employer to determine any issues that may arise; and

(3) full title to certain patents and inventions to be in the United States, as required by contracts between the employer and the United States or any of its agencies.

c. Nothing in this act shall be deemed to impede or otherwise diminish the rights of alienation of inventors or patent-owners.

275 F.Supp.3d 454
United States District Court, S.D. New York.

IN RE DOCUMENT TECHNOLOGIES LITIGATION

17–cv–2405
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17–cv–3433
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17–cv–3917
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Signed 7/5/2017
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Filed 7/6/2017

Synopsis

Background: Global provider of electronic discovery services for law firms filed suit against competitor and four members of its sales staff who had resigned to work for competitor, alleging tortious interference, misappropriation of trade secrets, and breach of employment agreements, in violation of state and federal law. Following consolidation with two other actions, former employer moved for preliminary injunction.

Holdings: The District Court, Jed S. Rakoff, J., held that:

former employer was unlikely to succeed on merits of claim against competitor for tortious interference or misappropriation;

former employer was unlikely to succeed on merits of claim against sales staff for breach of non-disclosure covenants;

former employer was unlikely to succeed on merits of claim against sales staff for breach of non-competition agreements;

former employer was unlikely to succeed on merits of claim against sales staff for breach of co-worker non-solicitation clauses; but

even if former employer demonstrated it was likely to succeed on claim, it failed to demonstrate irreparable harm.

Motion denied.

***457** OPINION

JED S. RAKOFF, U.S.D.J.

The painstaking process of gathering and reviewing documents in connection with litigation discovery used to be a task relegated to (and dreaded by) young associates and paralegals at our nation's law firms. With the advent of electronic discovery, however, firms have shifted this task to third-party providers, who in turn have developed clever strategies for cultivating customers, which they guard jealously. Business apparently is booming—and so too are providers' efforts to protect what they believe is their proprietary information regarding customer contracts, strategies, and the like.

Before the Court is the motion by Plaintiffs Document Technologies, Inc. ("Document Technologies"), Epiq Systems, Inc. ("Epiq Systems"), and Epiq eDiscovery Solutions, Inc. ("Epiq Solutions") (collectively, "DTI") for a preliminary injunction against their former employees, Steve West, John Parker, Seth Kreger, and Mark Hosford (collectively, the "Individual Defendants") and a competitor of DTI, defendant LDiscovery, LLC ("LDiscovery"). In brief, plaintiffs allege that the Individual Defendants conspired with LDiscovery to misappropriate their trade secrets and solicit their customers in violation of the Individual Defendants' employment agreements and state and federal law. The Court held a three-day evidentiary hearing on whether plaintiffs' were entitled to injunctive relief and, on the basis of the Court's assessment of the evidence presented at that hearing (including its assessment of the witnesses' demeanor and credibility), denied plaintiffs' motion by bottom-line Order dated June 16, 2017. This Opinion explains the reasons for that ruling.

The pertinent facts, as found by the Court for purposes of this motion, are as follows:

Plaintiff DTI employs nearly 7,000 employees and is a global provider of electronic ***458** discovery ("e-discovery") services for law firms and corporate legal departments. See transcript of evidentiary hearing

("Tr.") 497:3–17. DTI's formation is a relatively recent development, however, and is the result of an acquisition by Document Technologies of Epiq Systems and its wholly-owned subsidiary Epiq Solutions (collectively, "Epiq") in September 2016. Id. at 496:4–19.

The Individual Defendants were high level sales personnel at Epiq at the time of the acquisition and were responsible for bringing in new clients and maintaining existing client relationships. Id. at 497:18–499:10. As a condition of their employment, the Individual Defendants signed agreements with Epiq (the "Epiq Employment Agreements") containing numerous restrictive covenants, including a one-year non-competition agreement, a one-year prohibition on soliciting the company's clients, a one-year prohibition on soliciting the company's employees, a broad non-disclosure provision, and a covenant to return the company's confidential information upon termination of employment. See PX 018; PX 037; PX 063; PX 064. The agreements further set forth that "all disputes relating to all aspects of the employer/employee relationship" shall be settled by arbitration, but establish a limited exception for the signatories "to obtain an injunction from a court of competent jurisdiction restraining [a] breach or threatened breach ... of any [covenant] of this agreement." Id. Although these covenants remained in place following DTI's acquisition, the Individual Defendants have at all times been at-will employees. Id.; Tr. 153:2–154:4.

The Individual Defendants were dissatisfied with their employment even prior to DTI's acquisition. In their view, Epiq had made several operational and managerial errors that had cost these salesman both clients and personal revenue, in particular by underinvesting in document review centers in Washington, D.C. and Canada. Tr. 14 6:12–149:13. The Individual Defendants accordingly began looking for new employment in 2014, and jointly attended a meeting with one potential employer, Consilio, early that same year. Id. at 146:9–149:23, 151:1–155:25, 195:9–18, 196:18–197:22, 260:2–262:14, 262:18–264:3, 265:11–266:8, 290:17–293:1.

The Individual Defendants' concerns grew upon learning of DTI's proposed acquisition. They viewed DTI as a "low cost" provider that would harm their reputation and their relationship with their clients, and accordingly stepped up their efforts in mid-2015 to find new employment. Id. at 151:1–155:25. Then, in January 2016, defendant Kreger received a communication from a recruiter about an employment opportunity at defendant LDiscovery. Id. at 112:15–117:7. Defendant Kreger communicated this opportunity to the rest of the Individual Defendants and, in May 2016, the Individual Defendants met with representatives from LDiscovery in Washington, D.C. to discuss a potential transition. Id. In preparation for the meeting, the Individual Defendants informed LDiscovery of the amount of sales revenue they generated for Epiq from 2011 to 2016, id. at 393:20–394:4; PX 003, and notified LDiscovery at the meeting that they would require document review centers in Canada and Washington, D.C. if they were to join the company. Id. at 114:23–117:19. The Individual Defendants afterwards retained counsel to represent them in further negotiations, and thereby communicated extensively with LDiscovery about the terms of their potential transition during the remainder of the year. Id. at 200:23–202:17.

On January 4, 2017, the Individual Defendants signed employment agreements with LDiscovery whereby they agreed to ***459** resign from DTI by no later than January 31, 2017. See, e.g., PX 006; PX 042. The agreements set forth that the Individual Defendants will then take a "Sabbatical Year," during which LDiscovery will "not request and the [Individual Defendants] will not provide, any work, information, or services purported to be restricted by the Epiq [Employment Agreements]." Id. Following the Sabbatical Year, the Individual Defendants will begin employment at LDiscovery in or around January 2018. Id. In return, LDiscovery agreed to pay each Individual Defendant signing bonuses between $1,200,000 and $1,400,000 (to be paid in quarterly installments during the Sabbatical Year) and base salaries between $781,096 and $911,278 (to be paid upon the start of their employment). Id. LDiscovery further agreed to indemnify the Individual Defendants for attorneys' fees and damages "relating directly to [their] contemplated transition and eventual transition from Epiq to employment with [LDiscovery]," except where a court has determined that the "[e]mployee engaged in the disputed conduct that forms the basis of that claim." [1] Id. The agreement lastly provides that the Individual Defendants may resign from LDiscovery for cause if it does not establish a document review operation in Canada and Washington, D.C. by April 4, 2019. Id.

On January 5, 2017, the Individual Defendants sent identical letters to DTI (drafted by counsel) resigning from the company, but offering to stay on for two weeks in order to assist with the transition. Tr. 126:13–127:19; PX 181. The Individual Defendants did not inform DTI that they had signed employment agreements with LDiscovery, and DTI did not accept their offer to assist in the transition. The next day, on January 6, 2017, a DTI representative contacted the Individual Defendants and requested that they return any property containing DTI's confidential information, pursuant to their Epiq Employment Agreements. [2] See DTX 200–201.

The Individual Defendants partially complied. Although the Individual Defendants returned their laptops and mobile devices, [3] defendant West failed to return a thumb drive provided to him by Epiq in August 2016 containing a backup of his company laptop. Tr. at 52:19–53:12. Defendant Hosford similarly failed to return a thumb drive inserted into his company computer approximately six weeks before his resignation. Id. at 457:2–11; PX 249–003 at ¶ 7.

Several weeks later, around January 31, 2017, defendant Kreger contacted a DTI employee for a list of invoices paid by his clients in December 2016. See PX 240, 241; Tr. 397:23–399:19, 437:19–440:2. This was ***460** common practice among DTI's sales personnel because the company often made mistakes in calculating commissions checks, and DTI regularly sent invoice lists to its employees so that they could check the accuracy of their commissions payments. Tr. 438:9–439:7. Rather than send Kreger only his own invoices, however, the DTI employee forwarded a list of all of the company's invoices for the entire month. See PX 240. Kreger then forwarded the invoice list to the other Individual Defendants several hours later, purportedly so that they could verify their commissions payments as well. Tr. 397:23–399:19, 437:19–440:2.

Three days later, on February 2, 2017, defendant West circulated an email to the other Individual Defendants titled "Four Horseman 2018 Game Plan." PX 088. According to the correspondence, the Individual Defendants planned to meet in April 2017 to discuss their sales strategy at LDiscovery. In order to prepare for the meeting, defendant West circulated a spreadsheet so that each Individual Defendant could input the names of his clients at Epiq, the client contact information, and the revenue those clients generated for 2016. Id.; Tr. at 380:24–384:16.

The Individual Defendants never met, however, and the spreadsheet was never completed. This was because in March 2017, DTI sent a cease-and-desist letter to the Individual Defendants demanding, among other things, that they cease all communications with DTI employees and customers "in any manner competitive with DTI" and immediately return all materials relating to the company. See PTX 159. After discussing the matter, the Individual Defendants decided to postpone the meeting indefinitely. Tr. 251:6–24. One month later, in April 2017, DTI filed three lawsuits in federal court: the instant action in the Southern District of New York against defendants West, Kreger, and Parker (the "SDNY Action"), an action in the Northern District of Illinois against defendant Hosford (the "Illinois Action"), and an action in the Eastern District of Virginia against LDiscovery (the "Virginia Action"). See SDNY Compl. ¶¶ 84, 91, 132; Illinois Action Compl. ¶¶ 61, 78, 114; Virginia Action Compl., 17–cv–3733, No. 1, ¶¶ 46, 95, 98, 187.

The Court held an initial pretrial conference in the SDNY Action on April 12, 2017, during which counsel for all the defendants agreed to a common discovery plan applicable to all the actions. Two days later, on April 14, 2017, the Individual Defendants in the SDNY Action moved to transfer the case to the Eastern District of Virginia, and on April 25, 2017, the Court issued an Opinion and Order denying the motion. On May 1 and May 10, 2017, the courts presiding over the Virginia and Illinois Actions issued orders transferring their cases to this District, and the Court consolidated the actions by Order dated May 19, 2017. As noted, the Court subsequently held a three-day evidentiary hearing on DTI's motion for a preliminary injunction from May 30 to June 1, 2017, after which counsel submitted written opening and rebuttal summations. [4]

A preliminary injunction is an "extraordinary and drastic remedy, one ***461** that should not be granted unless the movant, by a clear showing, carries the burden of persuasion." JBR, Inc. v. Keurig Green Mountain, Inc., 618 Fed.Appx. 31, 33 (2d Cir. 2015) (quoting Sussman v. Crawford, 488 F.3d 136, 139 (2d Cir. 2007))(emphasis in original). With exceptions not here relevant, the moving party must show four elements: "(1) likelihood of success on the merits; (2) likelihood that the moving party will suffer irreparable harm if a preliminary injunction is not granted; (3) that the balance of hardships tips in the moving party's favor; and (4) that the public interest is not disserved by relief." Id. (quoting Salinger v. Colting, 607 F.3d 68, 79–80 (2d Cir. 2010)).

The Court begins with DTI's claims for injunctive relief against LDiscovery and, in particular, the claim that LDiscovery tortiously interfered with DTI's relationships with existing and prospective customers. Under New York law, tortious interference with existing customer relations consists of five elements: "(1) the existence of a valid contract between plaintiff and a third party; (2) defendant's knowledge of the contract; (3) defendant's intentional inducement of the thirdparty's breach of contract without justification; (4) actual breach of the contract; and (5) damages to plaintiff." American Bldg. Maintenance Co. of New York v. Acme Property Servs., Inc., 515 F.Supp.2d 298, 308 (N.D.N.Y. 2007). Likewise, tortious interference with prospective customer relations requires that the plaintiff show: "(1) [that] it had a business relationship with a third party; (2) the defendant knew of that relationship and intentionally interfered with it; (3) the defendant acted solely out of malice, or used dishonest, unfair, or improper means; and (4) the defendant's interference caused injury to the relationship." Id. at 316.

DTI contends here that LDiscovery intentionally induced the Individual Defendants to breach the restrictive covenants in their employment agreements by indemnifying them against claims that would foreseeably be brought by DTI and by agreeing to pay them a collective $5.1 million during their Sabbatical Year. The Court, however, is unpersuaded that LDiscovery has done anything improper by entering into these agreements with the Individual Defendants, let alone that the Individual Defendants have breached the applicable terms of their agreements with DTI.

As previously noted, the Individual Defendants forfeit their right to indemnification should a court find that they have "engaged in the disputed conduct that forms the basis of [DTI's] claim," e.g., PX 006; PX 042, so the Individual Defendants' agreements with LDiscovery can hardly be read as an inducement to commit such breaches. Moreover, it makes perfect sense for LDiscovery to compensate the Individual Defendants during the Sabbatical Period for their year of lost income as a way of inducing them to join the company. Tr. 395:8–19. Indeed, LDiscovery set forth a rational business case for these payments during the evidentiary hearing, see Tr. 356:3–12, and there is thus no basis for the Court to infer that the signing bonuses are in return for any alleged wrongdoing. The Court accordingly finds that DTI has failed to show a likelihood of success on the merits for its claims for tortious interference against LDiscovery.

DTI similarly fails to show a likelihood of success on the merits for its misappropriation claims. The requirements for showing a misappropriation of a trade secret are similar under state and federal law. Under New York law, a party must demonstrate: (1) that it possessed a trade secret, and (2) that the defendants used ***462** that trade secret in breach of an agreement, confidential relationship or duty, or as a result of discovery by improper means. N. Atl. Instruments, Inc. v. Haber, 188 F.3d 38, 43–44 (2d Cir. 1999). Likewise, under the federal Defend Trade Secrets Act ("DTSA"), a party must show "an unconsented disclosure or use of a trade secret by one who (i) used improper means to acquire the secret, or, (ii) at the time of disclosure, knew or had reason to know that the trade secret was acquired through improper means, under circumstances giving rise to a duty to maintain the secrecy of the trade secret, or derived from or through a person who owed such a duty." Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Grp., Inc., No. 15CV211LGSRLE, 2016 WL 5338550, at *6 (S.D.N.Y. Sept. 23, 2016) (quoting 18 U.S.C. § 1839(3) (A)-(B)). Although there is no one-size-fits all definition to a trade secret, New York courts generally consider the following factors to determine its contours:

> (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by the business to guard the secrecy of the information; (4) the value of the information to the business and its competitors; (5) the amount of effort or money expended by the business in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Bancorp Servs., LLC v. Am. Gen. Life Ins. Co., No. 14-CV-9687 (VEC), 2016 WL 4916969, at *11 (S.D.N.Y. Feb. 11, 2016).

Plaintiffs ignore these elements altogether. Instead, DTI contends that the Individual Defendants have disclosed "confidential information" to LDiscovery concerning DTI's "business development efforts and strategies" by requesting, as part of their employment negotiations, that LDiscovery open document review centers in Washington, D.C. and Canada. See Plaintiffs' Post–Hearing Brief in Support of Their Motion for Preliminary Injunction ("Pls.' Summation") at 3, ECF No. 60. Putting aside for a moment that Epiq's website publicly states that it operates in these regions, [5] or that DTI discloses this information in unredacted form in its amended complaint, see ECF No. 56 at ¶¶ 60–64, or that DTI has not requested that the defendants redact this information from their own post-hearing summations, see ECF No. 64 at 2–3, there is nothing "confidential" about the fact that Canada and Washington, D.C. have law firms and corporate legal departments requiring document review services, so that they are obvious markets. DTI does not have a monopoly on entire geographic regions, and cannot prevent competition in such areas by twisting the contours of trade secrets law.

For the foregoing reasons, the Court concluded that plaintiffs had failed to show a likelihood of success on the merits on any of their claims against LDiscovery, and accordingly denied their motion for a preliminary injunction against LDiscovery in its Order dated June 16, 2017.

The Court next turns to DTI's claims against the Individual Defendants. DTI's principal contention is that the Individual Defendants have breached or are threatening to breach their non-disclosure covenants by improperly copying and retaining ***463** DTI's proprietary information. The Epiq Employment Agreements prohibit the Individual Defendants from disclosing Epiq's "Confidential Information," which includes "any information of Epiq, its vendors or its customers including but not limited to proprietary information, technical data, trade secrets, ... customers lists, customers, [and] markets," [6] see, e.g., PX 018, and also require the Individual Defendants to return DTI's Confidential Information upon the termination of their employment. See id. While there is no dispute that the Individual Defendants initially retained some of DTI's proprietary information following their resignations, the testimony and forensic evidence from the evidentiary hearing established to the Court's satisfaction that this was inadvertent rather than the result of a conspiracy.

First, contrary to the allegations in DTI's preliminary injunction motion, defendant West did not "mass copy" documents from his company laptop to a thumb drive prior to his resignation. See ECF No. 7 at 10. Rather, in September 2016, DTI sent West a thumb drive containing information recovered from his broken company computer. Tr. 165:9–172:16; DX 166, 167, 173, 174. West then transferred the information to his new company laptop, placed the thumb drive into a desk drawer in his home office, and forgot it was there until he read the allegations in DTI's complaint. Tr. 171:8–174:2; DX 176. West subsequently contacted counsel and placed the thumb drive in an envelope, where it sat until the parties' agreed-upon third-party forensic consultant retrieved it. Tr. 108:23–109:23, 174:6–175:21, 181:3–9; DX 236. The ensuing forensic analysis confirms West's account and shows that West did not access the thumb drive between October 3, 2016 (when he initially copied the files onto his new laptop) and April 5, 2017 (the morning after he was served with the complaint in this action). See DX 215 at 6–7; DX 216 at 3–6; PX 244 at 2; Tr. 470:1–473:20; Tr. 483:13–485:20.

Second, defendant Hosford testified that although he does not have a specific recollection of his missing thumb drive, he likely transferred DTI's materials onto the device in preparation for a client meeting and left the drive with the client, which was consistent with his past practice. See Tr. 255:5–9. The forensic analysis presented at the evidentiary hearing confirms that the thumb drive was never subsequently inserted into any of the defendants' computers, see DX 143–48, DX 196–197; Tr. 470:4–21, and there is no evidence that Hosford was aware that the defendants' devices would log the drive's serial number upon use and therefore kept it hidden.

Third, defendant Kreger did not improperly obtain DTI's invoice list for December 2016. There is no dispute that DTI voluntarily forwarded the spreadsheet to Kreger nearly a month after his resignation, knowing that he was no longer an employee. There is also no dispute that DTI regularly sends such lists to its sales personnel so that they can verify the accuracy of their commissions checks, and that this was Kreger's stated purpose in requesting the information. Moreover, the transmittal email from DTI contained no instructions requiring Kreger to delete the spreadsheet upon the completion of his review, and DTI fails to identify any provision of Kreger's employment agreement that mandates that he do so.

***464** Kreger's decision to forward the invoice list to the other Individual Defendants is also not improper based on the testimony presented at the evidentiary hearing. Kreger testified that he believed the other Individual Defendants would also want to verify their commissions, Tr. 439:2–23, and defendant Parker corroborated that he too "had an ongoing discussion going on with finance questioning [his] January commission" and reviewed the spreadsheet sent by Kreger for that purpose, Tr. 398:3–399:21. The Individual Defendants further testified that they did not disseminate the spreadsheet to any third parties, including LDiscovery. Tr. 156:21–157:6, 268:6–18, 355:10–23, 382:14–18, 398:4–399:21, 401:6–10, 436:25–437:12, 439:20–23. While DTI dismisses these explanations as self-serving, there is no evidence to the contrary, and the Court sees no reason to draw an adverse inference against the Individual Defendants when it was DTI that decided to disseminate its entire invoice list to defendant Kreger in the first place.

For the foregoing reasons, the Court concluded that DTI had failed to show a likelihood of success on the merits for its misappropriation claims because it had not shown that the Individual Defendants intentionally retained DTI's confidential information to gain an improper advantage in their new employment, and the Court accordingly denied that prong of plaintiffs' motion in its Order of June 16, 2017. [7]

The Court next turns to DTI's contention that the Individual Defendants have violated the terms of their non-competition covenants. The provisions set forth in relevant part that the Individual Defendants for 12 months after termination will not "compete against [Epiq] ..., or engage in employment with or provide independent contractor or consulting services for any ... entity which ... compete[s] against [Epiq]." See PX 018; PX 037; PX 063; PX064; Tr. 42:5–45:10. DTI argues that by executing employment agreements with LDiscovery and engaging in several preparatory activities for their employment in 2018, the Individual Defendants have breached their non-competition covenants warranting the issuance of a preliminary injunction. See, e.g., PX 042; Tr. 237:21–238:14.

DTI is incorrect as a matter of law. Under applicable New York law, a former employee may prepare to compete during the term of a non-competition provision, because restraining such acts "would have the effect of extending the term of the covenant." Stork H & E Turbo Blading, Inc. v. Berry, 32 Misc.3d 1208A, 932 N.Y.S.2d 763 (Sup. Ct. 2011) (citing Walter Karl, Inc. v Wood, 137 AD2d 22, 28, 528 N.Y.S.2d 94 (1988)). New York courts have accordingly held as legitimate acts ranging from incorporating a later competing business, see Walter, 137 AD2d at 28, 528 N.Y.S.2d 94, to building facilities, Stork, 932 N.Y.S.2d at 763, and filing and obtaining trademarks. [8] Abraham Zion Corp. v. Lebow, 593 F.Supp. 551, 571 (S.D.N.Y. 1984), aff'd, 761 F.2d 93 (2d Cir. 1985).

***465** To be sure, acts cease to be preparatory where they detrimentally impact the former employer's economic interests during the term of a non-competition clause. See, e.g., Am. Fed. Grp., Ltd. v. Rothenberg, 136 F.3d 897, 906 (2d Cir. 1998) (citing AGA Aktiebolag v. ABA Optical Corp., 441 F.Supp. 747, 754 (E.D.N.Y. 1977) (defendant breached his duty of loyalty by soliciting customers for himself while still employed for the plaintiff)). But the Individual Defendants have not crossed that line here. Specifically, while it is undisputed that defendant West prepared and circulated a rudimentary spreadsheet containing the names, locations, contacts, and revenue estimates for some of his DTI clients and that the Individual Defendants intended to input additional client information into the spreadsheet, (but decided not to do so after DTI filed the instant lawsuit), preparing such a spreadsheet is no different than building a facility for a later competing business, for the spreadsheet has no effect on DTI's economic interests until it is actually used. Here, there is no evidence that the Individual Defendants inappropriately solicited any of DTI's clients during the non-competition period, nor is there evidence that the Individual Defendants turned over this spreadsheet (or any other document containing DTI's client information) to LDiscovery. [9]

Moreover, the Individual Defendants did not use (or intend to use) DTI's trade secrets to populate the spreadsheet. [10] See Stork, 932 N.Y.S.2d at 763 ("An active employee may prepare to compete—even in secret—prior to his departure, provided that he does not use his employer's time, facilities or proprietary secrets to do so."). DTI's clients consist of major law firms and corporate legal departments whose names are widely known, and their locations and contact information are readily ascertainable from corporate websites, LinkedIn, and Google. Tr. 66:18–67:3; DX 243 at 151:2–13, 151:15–23, 166:23–168:12. The Individual Defendants' general knowledge of the revenue attributable to each client is further not protectable, since labeling this kind of knowledge as proprietary would "prevent former employees from ever pursuing clients or customers whom they believe generate substantial business for their former employers." [11] ***466** RogersCasey, Inc. v. Nankof, No. 02 CIV. 2599 (JSR), 2003 WL 1964049, at *5 (S.D.N.Y. Apr. 24, 2003). In short, there was nothing improper about the Individual Defendants' preparing spreadsheets of non-protectable client information and discussing their future employment at LDiscovery.

For the foregoing reasons, the Court concluded that DTI had failed to show a likelihood of success on the merits that the Individual Defendants had violated the terms of their non-competition agreements, and accordingly denied this prong of plaintiffs' motion as part of the Order of June 16, 2017.

The Court next turns to DTI's contention that the Individual Defendants breached their employee non-solicitation clauses, which state that during their employment and for a 12–month period after termination, the Individual Defendants may not "attempt to hire, solicit, induce, recruit or encourage any other employees or agents of Epiq to terminate their employment ... with Epiq in order to work for any ... entity other than Epiq." See PX 018; PX 037; PX 063; PX 064. DTI now asserts that the Individual Defendants breached this provision by jointly searching for new employment, because, by doing so, they became "much more attractive than a lone wolf pitch to employers looking to poach their competitors' rainmakers." Plaintiffs' Rebuttal to Defendants' Written Summations ("Pls.' Rebuttal") at 5, ECF No. 65.

This restrictive covenant is, however, unenforceable insofar as it purports to prohibit at-will employees, who have yet to accept an offer of new employment, from "inducing" or even "encouraging" their coworkers to leave their present employer. In that connection, New York courts apply a three-part reasonableness test to covenants prohibiting the recruitment of employees. Kelly v. Evolution Markets, Inc., 626 F.Supp.2d 364, 374 (S.D.N.Y. 2009). Such a covenant "is reasonable only if it: (1) is no greater than is required for the protection of the legitimate interest of the employer, (2) does not impose undue hardship on the employee, and (3) is not injurious to the public." Id. (quoting BDO Seidman v. Hirshberg, 93 N.Y.2d 382, 388–389, 690 N.Y.S.2d 854, 712 N.E.2d 1220 (N.Y. 1999)) (citing Restatement (Second) of Contracts § 188 (1981)). The employee non-solicitation provision here fails all three requirements.

First, although DTI contends that the covenant prevents "the potential harm to a company's operations arising from the coordinated en masse resignation of several employees," Pls.' Rebuttal at 7, this is not a legally cognizable interest for the purposes of a restrictive covenant. [12] The "legitimate interest of the employer must protect against unfair competition, not ***467** simply to avoid competition in a general sense." Kelly, 626 F.Supp.2d at 374 (citing Lazer Inc. v. Kesselring, 13 Misc.3d 427, 823 N.Y.S. 2d 834 (Sup.Ct. 2005)). Accordingly, the New York Court of Appeals has "limited the cognizable employer interests under the first prong of the common-law rule to the protection against misappropriation of the employer's trade secrets or of confidential customer lists, or protection from competition by a former employee whose services are unique or extraordinary." BDO Seidman, 93 N.Y.2d at 389, 690 N.Y.S.2d 854, 712 N.E.2d 1220 (citing Reed, Roberts Assocs., Inc. v. Strauman, 40 N.Y.2d 303, 308, 386 N.Y.S.2d 677, 353 N.E.2d 590 (1976)).

DTI does not contend that the employee non-solicitation covenant is necessary to protect its trade secrets or confidential customer lists. [13] And even if the Individual Defendants' services could be described unique or extraordinary, [14] their decision to market themselves as a "package deal" is not a form of competition, let alone unfair competition. As the non-competition covenants in the Epiq Employment Agreements themselves recognize, competition requires engaging in services for a competitor, and there is no evidence that the Individual Defendants intended their resignations to disrupt DTI's operations for LDiscovery's benefit or that this actually occurred. Indeed, the Individual Defendants lacked an incentive to do so given that they cannot solicit any customers for LDiscovery until January 2018, and therefore could not take immediate advantage of any "disruption" that may or may not have occurred.

To be sure, if DTI desires to prevent its employees from coordinating their resignations, it is free to hire them pursuant to term employment agreements. DTI, however, cannot use restrictive covenants to supply itself all the benefits of term agreements while simultaneously retaining the right to lay off its personnel whenever it so desires. This is not a proper purpose for such a restraint on free market competition.

Second, the restrictive covenant imposes an undue hardship on DTI's employees because it goes far beyond DTI's stated goal of preventing "en masse" resignations.[15] As DTI readily acknowledges, the ***468** non-solicitation provision prohibits any speech that "encourages" or "induces" an employee to terminate his or her employment, from direct solicitations to such banal statements as an employer is a "mess" and that an employee "would be able to find other gainful employment without an issue."[16] See Pls.' Summation at 26. Given the vagueness of its terms, the covenant is thus nothing short of a contractual gag rule on employee complaints, which neither New York law nor common sense could possibly enforce, let alone have a lawful basis for doing so. See, e.g., Gold v. Maurer, No. CV 17-734 (CKK), 251 F.Supp.3d 127, 135, 2017 WL 1628873, at *5 (D.D.C. May 1, 2017) (denying preliminary injunction prohibiting the defendant "on any occasion in which he chose to discuss the circumstances of his departure from [his former employer]" because such an order would amount to an overly broad restraint on speech).

Third, the covenant's restrictions are injurious to the public. There is no dispute here that each of the Individual Defendants had already resolved to leave DTI–Epiq before they began coordinating their job search. See Pls.' Summation at 27. DTI contends, however, that the restrictive covenant still applies with full force because merely discussing other potential employers constitutes "encouragement" to leave the company. Id.

This is a bridge too far. In addressing whether a restrictive covenant is injurious to the public, the Court must "take account of any diminution in competition likely to result from slowing down the dissemination of ideas and of any impairment of the function of the market in shifting manpower to areas of greatest productivity." Restatement (Second) of Contracts § 188 (1981). The employee non-solicitation covenant here, in turn, serves to keep departing employees in the dark about job opportunities beyond DTI. It is under these circumstances that the public interest most strongly supports the free flow of information concerning alternative employment, however, since this effectuates the efficient redistribution of labor and the "harm" to DTI of losing the employee is a forgone conclusion.

The foregoing analysis applies also to DTI's claims that the Individual Defendants improperly solicited two other DTI employees, Gary Suffir and Myriam Schmell. Since DTI does not contend that either employee possesses any trade secrets or provides "unique" or "extraordinary" services, the non-solicitation clause fails under the first element of the reasonableness test. The evidentiary hearing further unequivocally established that Ms. Schmell was already intending to leave DTI at the time that the Individual Defendants spoke to her about alternative employment (because DTI had informed her that she would be laid off), Tr. 45:17–25, and the non-solicitation clause is therefore additionally unenforceable as to her under the third element of the reasonableness test.

***469** Lastly, even if DTI could show that the employee non-solicitation provisions are enforceable, it would still not be entitled to a preliminary injunction because it has failed to establish irreparable harm. See N.Y. ex rel. Schneiderman v. Actavis PLC, 787 F.3d 638, 660 (2d Cir. 2015) (quoting Forest City Daly Hous., Inc. v. Town of N. Hempstead, 175 F.3d 144, 153 (2d Cir. 1999)(irreparable harm requires an "injury that is neither remote nor speculative, but actual and imminent")). DTI does not contend that it has suffered any harm as a result of the Individual Defendants' communications with Mr. Suffir and Ms. Schmell, and has offered only conclusory statements from its Chief Integration Officer that the company saw "harm to [its] good will" because of the Individual Defendants' "abrupt" departure. Tr. 532:15–22; 537:5–12. It is precisely this type of unsubstantiated testimony, disconnected from proof that any customers have actually ceased doing business with DTI or testimony from any clients that they think less of the company, that New York courts have held is insufficient to show actual or imminent harm to a plaintiff's "goodwill." John G. Ullman & Assocs., Inc. v. BCK Partners, Inc., 139 A.D.3d 1358, 1359, 30 N.Y.S.3d 785 (N.Y. App. Div.).

For the foregoing reasons, the Court concluded that DTI had failed to show a likelihood of success on the merits or irreparable harm for the Individual Defendants' purported breach of the Epiq Employment Agreements' employee non-solicitation clauses, and consequently denied these prongs of plaintiffs' motion in its June 16, 2017 Order.

The Court turns finally to DTI's claim that the Individual Defendants have breached their client non-solicitation covenants. The Epiq Employment Agreements do not require the Individual Defendants to cease all contact with their clients following their departure from DTI. Rather, they prohibit the Individual Defendants from engaging in activity that would influence Epiq's customers to transfer their business to a competitor. [17] The Individual Defendants have abided by this covenant. For example, defendant Hosford testified that whenever he spoke to a former client, he never informed them of the name of his future employer and spoke only in vague terms that he "may be in touch in the future." Tr. at 240:10–241:5. Indeed, after receiving a voicemail from one former client, Hosford responded by email—copying several DTI employees on the communication—stating that "because of my employment agreement, it's best for both of us I do not respond with further detail" and to "call me if you have additional questions." See DTX 125.

The remainder of the alleged solicitations, such as a suggestion by defendant Kreger to grab lunch or for a particular client to call him, are innocuous. See PX 118; PX 243. The Individual Defendants testified that several of their former clients were also personal friends, see Tr. 63:4–9; 245:5–6, and DTI has not introduced any testimony from its clients stating that the Individual Defendants have solicited them for business. [18] See ***470** FTI Consulting, Inc. v. Graves, No. 05 CIV 6719 NRB, 2007 WL 2192200, at *10 (S.D.N.Y. July 31, 2007) (defendant's informing clients that he intended to leave his employer did not constitute improper solicitation). DTI has thus failed to show a likelihood of success on the merits that the Individual Defendants have breached their client non-solicitation clauses.

In sum, DTI's motion for a preliminary injunction fails as to the facts and the law. On the facts, DTI mistakenly portrays what are in actuality innocuous or otherwise legitimate acts by LDiscovery and the Individual Defendants as part of a conjectural (but unsupported) scheme to misappropriate DTI's trade secrets and improperly compete for its clients and employees. On the law, DTI's expansive view of its trade secrets and the restrictive covenants in its employment agreements is at odds with New York law and the testimony elicited during Court's three-day evidentiary hearing, and DTI accordingly has failed to show a likelihood of success on the merits or imminent and irreparable harm.

For all the foregoing reasons, the Court denied DTI's motion for a preliminary injunction in its Order dated June 16, 2017.

All Citations

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Footnotes

1 The latter provision also requires that "there is substantial evidence that Epiq did not file the claim solely in retaliation for Employee's departure from Epiq" and "substantial evidence that Employee is culpable with respect to the allegations in that claim." Id. The requirements are redundant, however, because a court's finding of a defendant's liability necessarily meets these elements.

2 The return of company documents provision states in relevant part that upon departure from the company, the Individual Defendants will "promptly deliver to [Epiq] ... any and all devices, records, data, notes, ... [or] other documents or property ... developed ... pursuant to [their] employment with [Epiq] that constitute Confidential Information, or otherwise belonging to Epiq." See, e.g., PX 018.

3 While DTI asserts in its complaint that defendant Kreger failed to return his DTI–issued phone in order "to deprive DTI of the benefit of trade secret, confidential, and proprietary information therein," see ECF No. 1, ¶¶ 130–131, defendant Kreger testified that he inadvertently lost the device prior to his resignation, see Tr. 413:25–414:16, and DTI's post-hearing summation brief does not raise the issue as a basis for injunctive relief.

4 After the Court consolidated the actions but before the evidentiary hearing, the Individual Defendants filed a motion to compel arbitration of all counts not seeking injunctive relief for the breach or threatened breach of the Epiq Employment

Agreements. The Court issued a bench order during the hearing granting the Individual Defendants' motion and, accordingly, this Opinion is limited to DTI's claims against the Individual Defendants for injunctive relief for breach of contract and DTI's claims for injunctive relief against LDiscovery.

5 See, e.g., http://www.epiqsystems.com/the-epiq-difference/offices;http://www.epiqsysterns.com/ediscovery–Canada.

6 The definition of Confidential Information excludes "information ... that [is] publicly known and generally available through no wrongful act." See PX 018; PX 037; PX 063; PX064.

7 For similar reasons, DTI also failed to show the element of irreparable harm. Defendant West is no longer in possession of the disputed thumb drive, and defendants Kreger and Parker have stated that they are willing to delete the DTI's invoice spreadsheet upon request. Tr. 439:17–23. As set forth previously, the Court also finds Hosford's testimony credible that he is no longer in possession of his disputed thumb drive.

8 Although several of these decisions involved defendants who prepared to compete while still employed by the former employer, there is no reason why this reasoning is not equally applicable to defendants who are former employees but subject to non-competition covenants. See, e.g., Stork, 932 N.Y.S.2d at 763.

9 While DTI also argued that defendant Kreger logged onto DTI's customer relationship management program (which contained information about business opportunities and customer preferences) 25 times the day before signing his employment agreement with LDiscovery, Kreger testified that he had no recollection of having done so, Tr. at 392:18–25, and DTI introduced no evidence showing that he actually accessed the system.

10 DTI identifies three other spreadsheets, also prepared by the Individual Defendants; but none of these includes DTI's confidential information. The first consists of client business cards collected by Kreger during his employment at DTI, which DTI returned to him when they mailed him his personal effects after his resignation. Tr. 73:14–74:24. The second consists of names and email addresses of AIG employees that West created from memory and primarily using LinkedIn. Id. at 75:19–77:23, 78:19–79:10, 175:22–178:4; DX 151. The third is comprised of contact information sent to West by his father, a senior partner at Weil, Gotshal & Manges LLP, who routinely sent his son information concerning potential clients. Id. at 80:9–83:18.

11 The Individual Defendants' general revenue numbers for 2011 to 2016, which they transmitted to LDiscovery as part of their employment negotiations, are not trade secrets for similar reasons. DTI does not dispute that it is industry practice for e-discovery providers to ask potential sales hires for their past revenue figures and that it would be extraordinarily difficult (if not impossible) for the Individual Defendants to get a sales job with another employer if they were not able to disclose such information. See Tr. 270:17–271:13; PX 310 at 104:7–11, 104:13–19, 105:7–13.

12 Unlike the situation here, however, en masse resignations may support a claim for breach of fiduciary duty where those resignations are part of a coordinated effort to "benefit [the defendants] through destruction of plaintiff's business." Duane Jones Co. v. Burke, 306 N.Y. 172, 189, 117 N.E.2d 237 (1954). Such coordination nontheless requires more than shared timing of a few resignations. See Town & Country House & Home Serv., Inc. v. Newbery, 3 N.Y.2d 554, 557–58, 170 N.Y.S.2d 328, 147 N.E.2d 724 (1958). For example, in Duane Jones, five former officers and directors and two other key employees of the plaintiff's advertising agency, constituting 90% of its skilled employees as well as a majority of the entire working force, agreed to form a competing business, solicited the plaintiff's customers prior to their departures, and then resigned en masse, thereby acquiring overnight upwards of 50% of the business of their previous employer. 306 N.Y. at 172, 198, 117 N.E.2d 237; Town & Country House, 3 N.Y.2d at 557–58, 170 N.Y.S.2d 328, 147 N.E.2d 724.

13 Indeed, it is hard to imagine how this would be true given that the Individual Defendants are subject to non-disclosure provisions. See, e.g., Glob. Telesystems, Inc. v. KPNQwest, N.V., 151 F. Supp. 2d 478, 482 (S.D.N.Y. 2001) (plaintiff had a legitimate interest in enforcing an employee non-solicitation covenant where the employee at issue, the plaintiff's chief financial officer, was not subject to a non-disclosure provision).

14 Although the Court does not reach the issue, there is no evidence that this is the case. The mere fact that the Individual Defendants were some of DTI's top-earners is immaterial. DataType Int'l, Inc. v. Puzia, 797 F.Supp. 274, 283 (S.D.N.Y. 1992) ("Puzia is a salesman. To be sure, he is a very good salesman; but there is nothing unique about the nature of his services."). There is no testimony that DTI was substantially responsible for the Individual Defendants' success, such as by providing specialized training or "market intelligence" concerning prospective clients. Natsource LLC v. Paribello, 151 F.Supp.2d 465, 473 (S.D.N.Y. 2001); Kanan, Corbin, Schupak & Aronow, Inc. v. FD Int'l, Ltd., 8 Misc.3d 412, 797 N.Y.S.2d 883, 888 (Sup. Ct. 2005). To contrary, the Individual Defendants testified that their primary reason for leaving DTI was that it underinvested in client relationships and review facilities.

15 The decision in Estee Lauder Companies Inc. v. Batra, 430 F.Supp.2d 158, 182 (S.D.N.Y. 2006), which is not binding on this Court, is not to the contrary. There, Judge Sweet held that the defendant breached his employee non-solicitation clause by emailing a fellow employee, while still employed by the plaintiff, that "I would drag you with me kicking and

screaming even if you didn't want to come." Id. at 165. The defendant in Estee Lauder, however, did not dispute the validity of his non-solicitation clause, and therefore the court did not reach whether the provision was enforceable under New York law.

16 Although these statements were made by the Individual Defendants to a DTI employee after they had resigned to the company, the point is that they are examples of the types of conversations that the employee non-solicitation provisions makes improper, regardless of time or circumstance, and that the Individual Defendants no doubt shared in coming to their conclusion to seek alternative employment. See Tr. 148:10–149:23 (testimony by defendant West describing his grievances with Epiq and the fact that he shared his concerns with the other Individual Defendants prior to their deciding to seek new employment).

17 The non-solicitation clause states in relevant part that the Individual Defendants for a period of 12 months following termination will not: "(a) solicit, serve or cater to any of Epiq's customers whom [they] solicited, served or catered to on behalf of Epiq ...; (b) divert or attempt to divert any of Epiq's customers ...; or (c) call upon, influence, or attempt to influence any of Epiq's customers to transfer their business or patronage from Epiq to [them] or to any other ... business entity engaged in a business similar to Epiq's business." See PX 018; PX 037; PX 063; PX 064.

18 Indeed, DTI strategically chose to forgo examining Kreger at the evidentiary hearing about his suggestion to grab lunch and instead introduced the email into evidence through defendant Parker, who had no personal knowledge of what later transpired. Tr. 391:2–20.

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United States District Court, E.D. New York.

784 8TH STREET CORP. d/b/a Zan's Kosher Delicatessen & Restaurant and Pasquale Ruggiero, Plaintiffs,
v.
Denise RUGGIERO, Defendant.

CV 13-5739 (ADS) (GRB)
|
Signed 01/10/2018

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REPORT AND RECOMMENDATION

GARY R. BROWN, United States Magistrate Judge

***1** In this matter, plaintiff 784 8th Street Corp. d/b/a Zan's Kosher Delicatessen & Restaurant and Pasquale Ruggiero (collectively "plaintiffs" or "Zan's") filed a complaint alleging infringement of its registered and unregistered trademarks and copyrights against defendant Denise Ruggiero, now appearing *pro se* in this matter, whom Zan's claims is a former employee. Based on these allegations, Zan's seeks injunctive relief and damages. For her part, Denise Ruggiero filed for copyright and trademark registrations as to the name and logo used by Zan's, as well as other material incorporating those marks, claiming that she designed the logo.

Because, as discussed herein, the undisputed facts demonstrate that defendant did author, in whole or in part, the subject intellectual property, but did so while employed by plaintiffs, the property falls within the "works-for-hire" provision of the Copyright Act of 1976, *see infra*, rendering plaintiffs the owner of said materials. Accordingly, it is respectfully recommended that summary judgment be granted as to the first and second causes of action, that defendant's motion for summary judgment be denied and the counterclaims dismissed, and that plaintiffs be awarded relief consistent with this opinion.

Procedural History

This matter was commenced via the filing of a complaint in October 2013. DE 1. Defendant initially defaulted, but after a motion to vacate by defendant, who was then represented by counsel, plaintiffs withdrew their motion for a default judgment. DE 31, 32. A discovery schedule was put in place after a conference with counsel. DE 34. In her answer, defendant filed counterclaims against plaintiffs. DE 37. Following extensive court-supervised efforts to resolve this case, and extension of the discovery period, on December 8, 2016, the undersigned entered an order noting that discovery had closed and the parties should commence dispositive motion practice. *See* Electronic Status Report Order dated Dec. 8, 2016. Shortly thereafter, defendant's counsel withdrew from the case, and defendant opted to proceed *pro se*. DE 61, 62. After further efforts by the Court to effect a resolution, on July 5, 2017, defendant filed a document styled as a motion to dismiss, but after review, and in light of her *pro se* status, the undersigned construed her motion as one for summary judgment, providing the parties with notice of the same. DE 71; Electronic Order dated Oct. 13, 2017. In response, on November 17, 2017, counsel for plaintiffs filed a fully-briefed cross-motion for summary judgment, containing a raft of factual and documentary materials submitted by all parties. DE 76. Importantly, these documents included the requisite notice to a *pro se* party concerning summary judgment procedures. DE 76-1. The undersigned afforded the parties an opportunity for oral argument, which was declined. DE 81. This opinion follows.

Allegations of the Complaint

***2** Zan's is a full-service Kosher Delicatessen restaurant and catering service, one of the largest in the New York area. DE 1 at ¶¶ 10-11. Plaintiff Pasquale Ruggiero, the defendant's uncle, together with defendant's father, Anthony Ruggiero, established Zan's in 2004; the two brothers were equal partners in the business. *Id.* at ¶¶ 12-13. Anthony Ruggiero died in 2012, leading to complex and extensive valuation litigation in state court, which was still pending at the time of the filing of the complaint. *Id.* at ¶ 16. After the resolution of a prior lawsuit in 2004 with Ben's Delicatessen, plaintiffs developed a bundle of marketing materials annexed to the complaint, including the following logo:

Id. at ¶ 21. According to the complaint, plaintiff Pasquale Ruggiero "created" the name Zan's and its logo, and that the business has used the name and related materials since 2004, resulting in secondary meaning and substantial goodwill. *Id.* at ¶¶ 20-21, 28.

The complaint alleges that defendant "did not create or participate in the creation of" the Zan's name, logo or materials. *Id.* at ¶¶ 18-19, 22. [1] The complaint alleges that defendant Ruggiero "worked as an employee for Plaintiffs business during the years 2003 to 2004 and again between 2008-2010," and "sporadically" since then. *Id.* at ¶ 29. The complaint characterizes her work as that of a "part-time hostess" whose responsibility included "general restaurant work." *Id.* at ¶ 30. The complaint does acknowledge that "[a]t times, and at the direction of Plaintiffs, Defendant made minor changes to Plaintiffs menus, flyers, and advertisements." *Id.* at ¶ 32. It further alleges that while, at plaintiffs' direction and expense, "[d]efendant registered for a domain name at *www.zansdeli.com*", it was "[u]nbeknownst to Plaintiffs at that time, Defendant registered the domain name to herself individually." *Id.* at ¶¶ 32-33. Then, in 2013, "[d]efendant submitted two applications for copyright registrations for Zan's Materials and Zan's Logo." *Id.* at ¶ 37. Later that year, "[d]efendant also filed an application to register the Zan's Logo for federal trademark registration." *Id.* at ¶ 38. That later application required defendant to declare that "no other person, firm, corporation, or association has the right to use the mark in commerce, either in the identical form thereof or in such near resemblance thereto as to be likely, when used on or in connection with the goods/services of such other person, to cause confusion, or to cause mistake, or to deceive...." *Id.* Also, in 2013, defendant allegedly "hijacked" plaintiffs' website, sent cease and desist letters to plaintiffs and issued copyright infringement notices to *Newsday*, prompting the latter organization to refuse plaintiffs' advertising. *Id.* at ¶ 46.

Based on these allegations, plaintiffs set forth claims for false copyright filing, declaratory judgment and injunctive relief, common law trademark infringement, unfair competition, defamation and tortious interference.

Allegations Made in Support of Counterclaims

In support of her counterclaims, defendant alleges that "through her business, [she] offers for sale soups and delicatessen foods." DE 36 ¶ 70. Contrary to the allegations by plaintiffs concerning the creation of the Zan's materials, defendant alleges that she "is the sole creator and copyright owner of the logo known as the Zan's Logo, as well as the Zan's website," which "were created by [her] on her personal time and on her personal computer and software," and at her own expense. DE 36 ¶¶ 71, 72. As a result, she claims to be "the copyright owner of certain Zan's marketing and advertising materials, including but not limited to Zan's menus, which contain the Zan's Logo." *Id.* at ¶ 74. Furthermore, defendant alleges that she was not employed or paid by plaintiffs to create these materials. *Id.* at ¶¶ 75-76.

*3 Based on these allegations, defendant sets out counterclaims including trademark and copyright infringement, unfair competition and seeks declaratory judgment and injunctive relief.

Undisputed Facts

The following summary of material facts, as set forth in plaintiffs' brief are, except as noted below, undisputed or have been effectively uncontroverted on this motion: [2]

> Zan's has been in business as a kosher delicatessen, restaurant and caterer, in its current location, since 2004. Prior to 2004, Plaintiff Pasquale Ruggiero owned a Ben's Kosher Deli at that location. As a result of litigation between the Ben's partners, Plaintiff Pasquale Ruggiero and his brother had to change the name of the Ben's restaurant. They changed it to Zan's. As part of the transition from Ben's to Zan's, they used the advertising and marketing material that Ben's had used for many years ("Ben's Materials") as a template from which to create advertising and marketing materials for Zan's ("Zan's Materials"). Plaintiffs acquired the right

to use the Ben's Materials from their former partners via a 2004 Stipulation of Settlement.

From an advertising and marketing perspective, the transition from Ben's to Zan's consisted of changing the first two letters of the restaurant's name in the Ben's logo (the "Be" to a "Za"), slightly altering the color, font and underlining of the Ben's logo to the Plaintiffs' satisfaction, removing the caricature of a Ben's owner named Ronald Dragoon and replacing it with caricatures of the Zan's owners (Pasquale and Anthony Ruggiero) created by a company "Painted Pieces", and uploading the Zan's Materials to a new website constructed by another company, "Unreal Web Designs' ", on a new Internet domain located at www.zansdeli.com.

Plaintiff Pasquale Ruggiero and his wife Shari selected the name Zan's from a Jewish baby name book, as the name means "to nourish and sustain", which they found appropriate for a restaurant. Plaintiff Pasquale and his brother Anthony developed the slogan "Keeping It Kosher" in response to competition from another restaurant that opened nearby which was "kosher style" but not actually kosher.

Defendant was an employee of Zan's during the time that the Zan's Materials were created, and she participated in the creation of the Zan's Materials together with Plaintiff Pasquale Ruggiero, Defendant's father Anthony Ruggiero and another employee, Lisa Giosi. The Zan's Materials were created by the Zan's employees at the specific direction of Zan's' owners, and the employees were compensated for that work. Defendant, in particular, received a paycheck and insurance benefits throughout the course of her employment with Zan's.

Defendant admitted as much in an affidavit she filed in a state court action that her mother brought against Pasquale Ruggiero. In that action, her mother also acknowledged that Defendant was an employee of Zan's and its "brand manager". In addition, here eleven (11) non-parties submitted affidavits confirming that Defendant was employed by Zan's at the relevant time. Zan's has placed the Zan's Materials in commerce consistently since 2004 by way of its operation of a busy dine-in restaurant, take out delicatessen and caterer. It has heavily promoted the Zan's Materials both in store and out, in print and online marketing. More specifically, since 2004, Zan's has continuously used the Zan's name, the Zan's logo, the two caricatures of Pasquale Ruggiero and Anthony Ruggiero, the "Keeping It Kosher" slogan and all of the Ben's Materials, as modified ("Zan's Materials") to advertise and market Zan's.

***4** Defendant, on the other hand, never claimed ownership of the Zan's Materials until 2013, when she [filed] applications to register them with the United States Copyright Office and United States Patent and Trademark Office.

DE 76-39 at 5-6. Of particular note is the above-referenced affidavit filed by the defendant in the state court litigation, in which she stated, under oath, as follows:

> 6. I have been employed at Zan's since its inception in 2004. During that period of time, I was solely responsible for creating the Zan's brand (after having operated as "Ben's" for 25 years), creating and designing Zan's logo and slogan ("Keeping it Kosher"): I created and designed the dining room menu, the catering menus, hundreds of pieces of artwork that contain the Zan's name, and I was responsible for creating all holiday advertisements, promotions, coupons, etc. ....
>
> 7. In addition, I was responsible for all take out, barbeque menus, *shiva* catering and all public relations for Zan's. Essentially, I built the Zan's brand name, and worked tirelessly to grow and maintain its customer base through in-store marketing and outside promotional opportunities. I was also responsible for closing Zan's on Tuesday evenings, which meant that I oversaw all operations at that time, and was responsible for locking up and otherwise securing the restaurant.

DE 76-8., Ex. E. In that litigation, defendant's mother submitted a verified complaint to the same effect. DE 76-9.

Disputed Facts

In responding to the motion for summary judgment, defendant provided the Court with an unsworn response into which she has incorporated excerpts from a variety of documents in a cut-and-paste fashion. The provenance of some of these documents is uncertain, and the significance of others remains unclear. However, the importance of this submission—an effort to dispute certain assertions of fact by plaintiffs (many of which are immaterial)—can be easily summarized.

First, defendant submits a significant amount of material aimed at establishing that, contrary to the allegations of the complaint, she played a role in developing the Zan's logo and materials. *See generally* DE 82.[3] As plaintiff Pasquale Ruggiero has acknowledged in sworn testimony, the allegations of the complaint in this regard are plainly wrong, as defendant did play a role in creating the logo, menus and so forth used by plaintiffs in their business. *See, e.g.* DE 76-27. To be clear, there are aspects of the creation of the material that remain in dispute, such as the inspiration for the name Zan's,[4] the selection of fonts used in the logo, and the computer generation of caricatures used in print advertising, but such matters are, for these purposes, entirely irrelevant. However, disregarding the inaccurate allegations of the complaint, the evidentiary materials demonstrate conclusively that defendant created, or had a role in creating, the subject materials, and there is no dispute as to this fact.

***5** More to the point, however, is the fundamental issue in this case: was defendant in the employ of plaintiffs when she created the materials? This issue has become fundamentally tangled, as the parties have taken inconsistent positions on this issue. As noted, on this motion, plaintiffs have provided a bevy of materials establishing that defendant worked for plaintiffs during the relevant period. *See generally* DE 76. The most telling piece of evidence, however, is defendant's own sworn affidavit, in which she avers that she (1) had "been employed at Zan's since its inception in 2004"; (2) was "solely responsible for creating the Zan's brand ... creating and designing Zan's logo and slogan"; and (3) had "created and designed the dining room menu, the catering menus, hundreds of pieces of artwork that contain the Zan's name, and [] was responsible for creating all holiday advertisements, promotions, coupons, etc." DE 76-8.

In response to this showing, defendant tries to quibble with some of plaintiffs' seemingly conclusive proof that she created the Zan's materials while in their employ. By way of example, she provides the Court with a "client copy" of the second page of a statement purporting to be an "Employer's Quarterly State Report of Wages Paid to Each Employee" dated December 31, 2004, and notably omitting her name. DE 82.[5] She also provides a portion of a state court transcript in which an attorney apparently representing the plaintiffs denied that defendant Ruggiero was ever an employee of plaintiffs' business and sought to cancel her employee health insurance.[6] *Id.* While notable, none of this material effectively disputes defendant's own sworn statements that she created the subject material while in the employ of the plaintiffs. More importantly, what is entirely absent from defendant's submission is any sworn denial by her that she created the material at issue while a Zan's employee. In fact, review of the portions of her deposition in this matter demonstrates that she simply cannot recall whether or not she was so employed. *See* DE 76-25. Thus, defendant has not identified any competent evidence that would create a genuine dispute as to the question of her employment status.

The fact that there is no genuine dispute as to her status while creating the materials draws further support from reason and common sense. The advertisements and menus to which defendant lays claim contain a caricature of plaintiff Pasquale Ruggiero, as well as the address and telephone number for plaintiffs' business. *See generally* DE 82. No rational trier of fact could conclude that the defendant was creating the Zan's materials for her own "business" (the details of which remain hazy), as by definition, a consumer responding to these advertisements would, by definition, be directing business to the plaintiffs. Thus, there is no genuine issue of fact as to whether defendant created the Zan's materials while in plaintiff's employ.

DISCUSSION

Standard of Review

This motion for summary judgment is decided under the oft-repeated and well understood standard for review of such matters, as discussed in *Bartels v. Inc. Vill. of Lloyd Harbor*, 97 F. Supp. 3d 198, 211 (E.D.N.Y. 2015), *aff'd sub nom. Bartels v. Schwarz*, 643 Fed.Appx. 54 (2d Cir. 2016), which discussion is incorporated by reference herein. Several aspects of the standard, though, require amplification in light of certain procedural aspects of this case.

***6** First, as noted, plaintiffs properly filed a Rule 56.1 statement along with the notice required by Local Rule 56.2 providing a *pro se* party specific instructions regarding how to respond. Defendant failed to submit a responsive statement, which would permit the Court to deem all of the proffered facts admitted. However, "the court has liberally construed the *pro se* [defendant's] ... opposition papers and the evidence in the record in a light most favorable to the non-moving *pro se* party." *Urena v. Yan Wolfson, M.D.*, No. 09-CV-01107 KAM LB, 2012 WL 958529 at *2 (E.D.N.Y. Mar. 20, 2012).

Second, as discussed above, the only material issue that defendant endeavors to dispute revolves around the question of whether she was in the employ of the plaintiffs at the time of creating the subject materials. The Second Circuit has held:

> The rule is well-settled in this circuit that a party may not, in order to defeat a summary judgment motion, create a material issue of fact by submitting an affidavit disputing his own prior sworn testimony. *See, e.g.*, *Mack v. United States*, 814 F.2d 120, 124 (2d Cir. 1987) (party cannot create genuine issue of material fact with affidavit contradicting prior deposition testimony); *Miller v. International Tel. & Tel. Corp.*, 755 F.2d 20, 24 (2d Cir.) (same), cert. denied, *573 474 U.S. 851, 106 S.Ct. 148, 88 L.Ed.2d 122 (1985); *Perma Research & Dev. Co. v. Singer Co.*, 410 F.2d 572, 578 (2d Cir. 1969) (same); *McLaughlin v. Cohen*, 686 F.Supp. 454, 456 (S.D.N.Y. 1988) (same).

Trans-Orient Marine Corp. v. Star Trading & Marine, Inc., 925 F.2d 566, 572–73 (2d Cir. 1991). This same principle was articulated in *Mack v. U.S.*, 814 F.2d 120, 124–25 (2d Cir. 1987):

> If a party who has been examined at length on deposition could raise an issue of fact simply by submitting an affidavit contradicting his own prior testimony, this would greatly diminish the utility of summary judgment as a procedure for screening out sham issues of fact.

The rule articulated in *Trans-Orient* applies with even greater force in light of Justice Scalia's later holding in *Scott v. Harris*:

> At the summary judgment stage, facts must be viewed in the light most favorable to the nonmoving party only if there is a "genuine" dispute as to those facts. Fed. Rule Civ. Proc. 56(c). As we have emphasized, "[w]hen the moving party has carried its burden under Rule 56(c), its opponent must do more than simply show that there is some metaphysical doubt as to the material facts.... Where the record taken as a whole could not lead a rational trier of fact to find for the nonmoving party, there is no 'genuine issue for trial.' " *Matsushita Elec. Industrial Co. v. Zenith Radio Corp.*, 475 U. S. 574, 586–587 (1986) (footnote omitted). "[T]he mere existence of some alleged factual dispute between the parties will not defeat an otherwise properly supported motion for summary judgment; the requirement is that there be no genuine issue of material fact." *Anderson v. Liberty Lobby, Inc.*, 477 U. S. 242, 247–248 (1986). When opposing parties tell two different stories, one of which is blatantly contradicted by the record, so that no reasonable jury could believe it, a court should not adopt that version of the facts for purposes of ruling on a motion for summary judgment.

550 U.S. 372, 380 (2007).

The instant case presents a more attenuated situation, as the defendant does not submit an affidavit disputing her earlier affidavit (which unambiguously provides that she prepared the materials while in the employ of defendants) or even her inconclusive deposition testimony. In fact, she has not submitted any sworn denial that she was in the plaintiffs' employ during the creation of the materials. Rather, she simply identifies, in an unsworn submission, potential issues with the proof submitted by plaintiffs of a fact that she clearly acknowledged under oath. Thus, there is no genuine dispute as to the question of her employment.

Analysis

*7 Since the undisputed facts demonstrate that defendant was employed by plaintiffs to create the Zan's materials, the analysis becomes relatively straightforward. As this Court has previously held:

Pursuant to the Copyright Act of 1976, a copyright "vests initially in the author or authors of the work." 17 U.S.C. § 201(a). Generally, the author is "the party who actually creates the work, that is, the person who translates an idea into a fixed, tangible expression entitled to copyright protection." *Community for Creative Non–Violence v. Reid,* 490 U.S. 730, 737, 109 S.Ct. 2166, 2171, 104 L.Ed.2d 811 (1989); (*citing* 17 U.S.C. § 102). However, the Act provides a crucial exception to this principle within the "works for hire" provision, which provides that "the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright." 17 U.S.C. § 201(b). In this case, there is no written agreement assigning ownership to either party. Thus, to prevail on its motion for summary judgment, the Defendant must show that, viewing all the facts in the light most favorable to the Plaintiff, there is no genuine question of material fact that Orion is a "work made for hire." *Pavlica v. Behr,* 397 F.Supp.2d 519, 524 (S.D.N.Y. 2005) ("In the absence of an express, written agreement, the rights to a work for hire generally vest in the employer rather than the employee-author.").

Fleurimond v. N.Y. Univ., 876 F. Supp. 2d 190, 198 (E.D.N.Y. 2012). Thus, under these principles, to the extent defendant is the "author" of the Zan's materials, plaintiffs constitute "the employer or other person for whom the work was prepared." Because there has been no suggestion of a written agreement providing otherwise, plaintiffs are, upon the undisputed facts, the copyright owners of the Zan's materials. Furthermore, as was the case in *Fleurimond*, defendant's receipt of a copyright registration does not prescribe a different result. 876 F. Supp. 2d at 197 ("Although the possession of such a certificate strengthens the [author]'s case, it does not resolve the ownership dispute," and establishing that the subject material was a "work-for-hire" can overcome the presumption).

This conclusion demonstrates plaintiffs' entitlement to summary judgment on its first claim for relief (false copyright filing) and second claim for relief (declaratory judgement), and warrants denial of defendant's cross motion for summary judgment and dismissal of defendant's counterclaims.

Plaintiffs' Entitlement to Relief

Plaintiffs seek a declaratory judgment that plaintiffs have the sole rights in and to the Zan's Works and the Zan's Logo, and that defendant has no rights in or to the Zan's Works or the Zan's Logo. DE 38 at ¶ 74. Pursuant to the Declaratory Judgment Act, a court "may declare the rights and other legal actions of any interested party seeking such declaration in a case of actual controversy." 28 U.S.C. § 2201(a). An "actual controversy" exists if there is a "substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *Duane Reade, Inc. v. St. Paul Fire and Marine Ins. Co.*, 411 F.3d 384, 388 (2d Cir. 2005) (internal quotation marks and citation omitted). In determining whether declaratory relief is warranted, the court considers "(1) whether the judgment will serve a useful purpose in clarifying or settling the legal issues involved; and (2) whether a judgment would finalize the controversy and offer relief from uncertainty." *Id.* at 389. Here, plaintiffs clearly meet the Second Circuit's two prong test for determining if a copyright matter presents an "actual controversy" at the time it was filed, namely, (1) defendant's conduct has "created a real and reasonable apprehension of liability" on the part of plaintiffs, and (2) plaintiffs' have "engaged in a course of conduct which has brought it into adversarial conflict with defendant." *Cosa Instrument Corp. v. Hobre Instruments BV*, 698 F. Supp. 2d 345, 349 (E.D.N.Y. 2010) (internal quotation marks and citations omitted). Accordingly, for all the reasons plaintiffs have demonstrated their right to a declaration that they are the owners of the intellectual property—both copyrights and trademarks—at issue.

***8** While the registrations obtained are plainly invalid, plaintiffs' request for an order cancelling those registrations should be denied, as the Court has no authority to enter such an order. *Brownstein v. Lindsay*, 742 F.3d 55, 77 (3d Cir. 2014) ("Courts have no authority to cancel copyright registrations because that authority resides exclusively with the Copyright Office.").

Plaintiffs also seek permanent injunctive relief on its second cause of action. As the Supreme Court has recently clarified, even in the context of an intellectual property right which gives the holder exclusive right to such property, a permanent injunction remains an extraordinary remedy requiring the demonstration of irreparable harm:

> the creation of a right is distinct from the provision of remedies for violations of that right. Indeed, the Patent Act itself indicates that patents shall have the attributes of personal property "[s]ubject to the provisions of this title," 35 U.S.C. § 261, including, presumably, the provision that injunctive relief "may" issue only "in accordance with the principles of equity," § 283.
>
> This approach is consistent with our treatment of injunctions under the Copyright Act. Like a patent owner, a copyright holder possesses the right to exclude others from using his property. Like the Patent Act, the Copyright Act provides that courts "may" grant injunctive relief "on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. § 502(a). And as in our decision today, this Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed.

eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 392–93 (2006) (citations and alterations omitted). This decision led the Second Circuit to revise the standard for the issuance of injunctions in copyright cases:

> This Court's pre-*eBay* standard for when preliminary injunctions may issue in copyright cases is inconsistent with the principles of equity set forth in *eBay*. The Supreme Court's decision in *Winter* tells us that, at minimum, we must consider whether "irreparable injury is likely in the absence of an injunction," we must " 'balance the competing claims of injury,' " and we must " 'pay particular regard for the public consequences in employing the extraordinary remedy of injunction.' " Therefore, in light of *Winter* and *eBay*, we hold that a district court must undertake the following inquiry in determining whether to grant a plaintiff's motion for a preliminary injunction in a copyright case. [T]he court may issue the injunction only if the plaintiff has demonstrated "that he is likely to suffer irreparable injury in the absence of an injunction." *Winter*, 129 S.Ct. at 374. The court must not adopt a "categorical" or "general" rule or presume that the plaintiff will suffer irreparable harm (unless such a "departure from the long tradition of equity practice" was intended by Congress). *eBay*, 547 U.S. at 391, 393–94, 126 S.Ct. 1837. Instead, the court must actually consider the injury the plaintiff will suffer if he or she loses on the preliminary injunction but ultimately prevails on the merits, paying particular attention to whether the "remedies available at law, such as monetary damages, are inadequate to compensate for that injury." *eBay*, 547 U.S. at 391, 126 S.Ct. 1837; *see also Winter*, 129 S.Ct. at 375 (*quoting* 11A Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, *Federal Practice and Procedure* § 2948.1 (2d ed.1995), for the proposition that an applicant for a preliminary injunction "must demonstrate that in the absence of a preliminary injunction, 'the applicant is likely to suffer irreparable harm before a decision on the merits can be rendered' ").

***9** *Salinger v. Colting*, 607 F.3d 68, 79–80 (2d Cir. 2010) (alterations omitted).

In the instant case, there has been scant evidence of any use of the subject property by the defendant. Rather, the principal documented injury sustained by plaintiffs arose from defendant's erroneous copyright registration and claims of ownership of the Zan's materials, which caused *Newsday* to refuse plaintiffs' advertising for a time. The declaratory judgment described above would appear to fully remedy that issue. Despite the reference in defendant's counterclaims to operating a business involving soup and other deli foods, and her improper takeover of the *zansdeli.com* website, there is no competent evidence of record that she ever used the Zan's name in commerce. Since there is no evidence that such uses have been made, it is impossible to conclude that plaintiffs have shown a risk of irreparable harm in the future. [7]

Finally, no monetary damages are requested in connection with the First and Second Causes of Action. *See* DE 38. While plaintiffs nominally requested summary judgment on several other causes of action which include a request for damages, they have not, on this motion, proffered evidence sufficient to meet the elements of those causes of action. It may well be that the resolution recommended here—that is, summary judgment with attendant declaratory relief on the First and Second Causes of action and dismissal of counterclaims—will prove sufficient for these purposes. Assuming adoption of this report and recommendation, plaintiffs should inform the Court and the defendant as to whether they wish to further pursue this matter, or whether the case should be closed.

CONCLUSION

Based on the foregoing, it is respectfully recommended that:

1. Plaintiffs' motion for summary judgment as to the first and second causes of action should be granted, the Court should enter judgment declaring that plaintiffs' are the owners of the Zan's name, logo and materials, and defendant's copyright and trademark registrations are invalid;

2. Defendant's motion for summary judgment should be denied, and all counterclaims dismissed; and

3. Upon adoption of this Report and Recommendation, counsel for plaintiffs shall file a stipulation of discontinuance or, in the alternative, a letter regarding the status of the matter within fourteen days of such adoption.

OBJECTIONS

A copy of this Report and Recommendation is being electronically served on counsel for plaintiffs. Further, the Court is directing plaintiffs to serve a copy of this Report and Recommendation by overnight mail and first-class mail upon defendant and to file proof of service on ECF. Any written objections to this Report and Recommendation must be filed with the Clerk of the Court within fourteen (14) days of service of this report. 28 U.S.C. § 636(b)(1) (2006 & Supp. V 2011); Fed. R. Civ. P. 6(a), 72(b). Any requests for an extension of time for filing objections must be directed to the district judge assigned to this action prior to the expiration of the fourteen (14) day period for filing objections. **Failure to file objections within fourteen (14) days will preclude further review of this report and recommendation either by the District Court or Court of Appeals.** *Thomas v. Arn*, 474 U.S. 140, 145 (1985) ("[A] party shall file objections with the district court or else waive right to appeal."); *Caidor v. Onondaga Cnty.*, 517 F.3d 601, 604 (2d Cir. 2008) ("[F]ailure to object timely to a magistrate's report operates as a waiver of any further judicial review of the magistrate's decision.").

All Citations

Slip Copy, 2018 WL 1786989

Footnotes

1 As discussed further herein, allegations that defendant played no role in the creation of the materials are, based upon the undisputed facts, plainly inaccurate.

2 Due to defendant's failure to supply an appropriate responsive 56.1 statement (notwithstanding the provision of a *pro se* notice), the Court has the authority to deem the factual assertions in plaintiffs' 56.1 statement as true. However, out of an abundance of caution, particularly in light of the fact that defendant is proceeding without the benefit of counsel, the undersigned has searched the massive record in order to determine those facts which defendant appears to dispute.

3 Defendant's response to the summary judgment motion is comprised of a sheaf of documents filed without page numbers, making references somewhat difficult.

4 Indeed, given the business priority of changing the name through the substitution of two letters, settling on "Zan's" cannot be viewed as a moment of extraordinary creativity. Coincidentally, this case is not the first matter before this Court involving a business using the name Zan. *See* U.S. v. Zan Mach. Co., Inc., 803 F. Supp. 620 (E.D.N.Y. 1992) (Spatt, J.).

5 Plaintiffs have supplied evidence concerning her receipt of payment from the business, and provide credible explanations concerning the lack of certain documentation, including defendant's unjustifiable failure or refusal to provide her tax returns for the relevant periods.

6 The attorney's statement, likely made in 2013, does include an acknowledgment that the defendant had worked for the business in the past. On this motion, plaintiffs submit substantial evidence that defendant was, in fact, covered by employee health insurance supplied through Zan's during the relevant periods. *See* DE 7-16 thru 23.

7 For avoidance of doubt, upon entry of a declaratory judgment that plaintiffs own the subject materials and marks, any future attempt to use the name by defendant—including future use of the website to sell delicatessen foods—would be done at her peril.

End of Document

887 F.3d 1368
United States Court of Appeals, Federal Circuit.

Gregory C. JAMES, Plaintiff-Appellant,
v.
J2 CLOUD SERVICES, LLC, Advanced Messaging Technologies, Inc., Defendants-Appellees.

2017-1506
|
Decided: April 20, 2018

Synopsis
Background: Purported inventor brought action against assignee of patent for converting facsimile or voicemail messages into digital representations, alleging he was the sole inventor of the subject matter claimed in patent. The United States District Court for the Central District of California, Christina A. Snyder, J., 2016 WL 9450470, dismissed action. Purported inventor appealed.

Holdings: The Court of Appeals, Taranto, Circuit Judge, held that:

software development agreement (SDA) did not preclude inventor from having Article III standing to bring correction-of-inventorship claim, and

SDA did not support a hired-to-invent inference.

Reversed and remanded.

***1370** Appeal from the United States District Court for the Central District of California in No. 2:16-cv-05769-CAS-PJW, Judge Christina A. Snyder.

Attorneys and Law Firms

Keith Vogt, Oak Park, IL, argued for plaintiff-appellant. Also represented by Daniel Charles Cotman, Obi Iloputaife, Cotman IP Law Group, PLC, Pasadena, CA.

Guy Ruttenberg, Ruttenberg IP Law, PC, Los Angeles, CA, argued for defendants-appellees. Also represented by Bassil George Madanat.

Before Reyna, Taranto, and Hughes, Circuit Judges.

Opinion

Taranto, Circuit Judge.

In this action against j2 Cloud Services, LLC and Advanced Messaging Technologies, Inc. (AMT), Gregory James asserts a claim for correction of inventorship under 35 U.S.C. § 256, as well as various state-law claims. The district court dismissed the correction-of-inventorship claim for lack of jurisdiction and, consequently, dismissed the state-law claims. We reverse the jurisdictional dismissal and remand for further proceedings.

I

Mr. James alleges in his complaint that he is the sole inventor of the subject matter claimed in U.S. Patent 6,208,638, which names Jack Rieley and Jaye Muller as the inventors. The '638 patent, which Messrs. Rieley and Muller applied for on April 1, 1997, describes and claims systems and methods "for accepting an incoming message over a circuit switched network and transmitting it over a packet switched network." '638 patent, Abstract. More particularly, the patent describes the conversion of an incoming facsimile or voicemail message into a digital representation, which is then forwarded to an email address associated with the account holder's phone number. *Id.*, col. 3, lines 47–61, col. 5, line 66 through col. 6, line 54. The application that issued as the '638 patent was originally assigned to JFAX Communications, Inc., the company owned by Messrs. Rieley and Muller at the time of the invention. At present, the '638 patent is assigned to AMT, and j2 has an exclusive license to it. The patent expired on April 1, 2017.

Mr. James alleges that in November 1995 he was introduced to JFAX's Mr. Rieley, who asked Mr. James to develop software that would provide JFAX with three functionalities—"Fax-to-Email, Email-to-Fax, and Voicemail-to-Email." J.A. 37. At that time, Mr. James alleges, he agreed to "create and develop original software solutions and systems" and began working, and "[n]obody at JFAX provided input about how" the work was to be done. *Id.* According to the complaint, Mr. James successfully tested a Fax-to-Email system on December 25, 1995, and the next month he traveled to New York to install it. J.A. 38.

***1371** On February 11, 1996, Mr. James and Mr. Rieley, as representatives, signed a contract between their principals detailing the work to be done. J.A. 53–57. The agreement was between JFAX, for which Mr. Rieley signed, and GSP Software, "a partnership of professional software developers and independent contractors," for which Mr. James signed. J.A. 53, 57. The parties and the district court refer to this contract as the "Software Development Agreement" (SDA)—whose preamble states that it reflects the parties' "Agreement on the terms by which" GSP "will develop software solutions for the exclusive use of JFAX." *Id.* The SDA (which states that it is governed by Delaware law) does not mention patent rights, whereas it expressly requires the assignment to JFAX of "all copyright interests" in the developed "code and compiled software." J.A. 55.

According to the complaint, from February to August 1996, Mr. James, while in New York, developed and deployed all three JFAX systems, which included software and hardware components covered by the '638 patent. [1] J.A. 38–42. "The technical aspects of the code, functionality and operation of the system[s] were all conceived and implemented by [Mr.] James," he contends, and the only input provided by JFAX "was that JFAX needed a system." J.A. 37, 40–41.

Mr. James alleges that on August 30, 1996, he assigned all copyrights in code and compiled software to JFAX, but he "did not assign any patent ownership or inventorship rights." J.A. 42. He adds that he was not aware of the '638 patent until "November 2013 when he was contacted by attorneys representing one of the defendants" in a suit brought by JFAX (or perhaps a successor) alleging infringement of the '638 patent. J.A. 43.

On August 3, 2016, Mr. James brought the present action. The operative (first amended) complaint asserts a claim for correction of inventorship under 35 U.S.C. § 256, along with state-law claims for unjust enrichment, conversion, misappropriation, and unfair competition. In October 2016, j2 and AMT filed a motion requesting, among other things, that the case be dismissed on the ground that the court lacks jurisdiction because Mr. James has no Article III standing to bring the action. [2]

On December 19, 2016, the district court agreed with the Article III standing argument and granted the motion under Rule 12(b)(1) of the Federal Rules of Civil Procedure. It concluded that Mr. James lacks a stake in the controversy because he "fail[ed] to allege facts sufficient to show that he has an ownership or financial interest in the '638 patent." *James v. j2 Cloud Servs. Inc.*, No. 2:16-cv-05769, 2016 WL 9450470, at *5 (C.D. Cal. Dec. 19, 2016). Accordingly, the court also dismissed the state-law claims. *Id.* The dismissal was entered on December 22, 2016.

Mr. James timely appealed. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

II

We review without deference the ruling before us: the district court's ***1372** Rule 12(b)(1) dismissal for lack of standing. *See Chou v. Univ. of Chicago*, 254 F.3d 1347, 1357 (Fed. Cir. 2001); *Cedars-Sinai Medical Ctr. v. Watkins*, 11 F.3d 1573, 1580 (Fed. Cir. 1993) (citing *Love v. United States*, 915 F.2d 1242, 1245 (9th Cir. 1989)).

The district court stated the standard it was applying: "When deciding a Rule 12(b)(1) motion, the court construes all factual disputes in favor of the non-moving party." *James*, 2016 WL 9450470, at *3 (citing *Dreier v. United States*, 106 F.3d 844, 847 (9th Cir. 1996)). We apply the same standard. "[A]t the pleading stage, the plaintiff must clearly ... allege facts demonstrating each element" required for standing, *Spokeo, Inc. v. Robins*, — U.S. ——, 136 S.Ct. 1540, 1547, 194 L.Ed.2d 635 (2016), *as revised* (May 24, 2016) (internal quotation marks omitted), but "general factual allegations of injury resulting from the defendant's conduct may suffice, for on a motion to dismiss we presume that general allegations embrace those specific facts that are necessary to support the claim," *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560, 112 S.Ct. 2130, 119 L.Ed.2d 351 (1992) (internal quotation marks and alterations omitted). "For purposes of ruling on a motion to dismiss for want of standing, both the trial and reviewing courts must accept as true all material allegations of the complaint, and must construe the complaint in favor of the complaining party." *Warth v. Seldin*, 422 U.S. 490, 501, 95 S.Ct. 2197, 45 L.Ed.2d 343 (1975); *see Ritchie v. Simpson*, 170 F.3d 1092, 1097 (Fed. Cir. 1999).

A

To have Article III standing, the "plaintiff must have (1) suffered an injury in fact, (2) that is fairly traceable to the challenged conduct of the defendant, and (3) that is likely to be redressed by a favorable judicial decision." *Spokeo*, 136 S.Ct. at 1547 (citing *Defenders of Wildlife*, 504 U.S. at 560–61, 112 S.Ct. 2130); *see Chou*, 254 F.3d at 1357. "The benefit of the suit to the plaintiff must relate to the alleged injury." *Huster v. j2 Cloud Servs., Inc.*, 682 Fed.Appx. 910, 914 (Fed. Cir. 2017) (citing *Vermont Agency of Natural Resources v. United States ex rel. Stevens*, 529 U.S. 765, 772–73, 120 S.Ct. 1858, 146 L.Ed.2d 836 (2000)). In conducting the standing analysis, we "assume[ ] the merits of a litigant's claim and determine[ ] whether even though the claim may be correct the litigant advancing it is not properly situated to be entitled to its judicial determination." *Rocky Mountain Helium, LLC v. United States*, 841 F.3d 1320, 1325 (Fed. Cir. 2016) (internal quotation marks omitted); *see* 13A Charles Alan Wright & Arthur R. Miller, *Federal Practice and Procedure* §§ 3531, 3531.4 (3d ed. 2008 & Supp. 2016).

In this case, Mr. James alleges that he is the sole inventor of the inventions claimed in the '638 patent, that sole inventorship entails sole ownership, and that 35 U.S.C. § 256 gives him a cause of action to establish sole inventorship and therefore sole ownership. Subject to an important qualification, if Mr. James were to prevail on those allegations in this case, he would stand to gain concretely, whether through securing an entitlement to seek damages for past acts of infringement or otherwise. Such a gain would be directly related to the merits of the claim and would redress the asserted injury of being deprived of allegedly rightful ownership. In the absence of other facts, that is enough to give Mr. James Article III standing.

The district court did not conclude otherwise. Nor did it depart from the longstanding "basic principle, codified in the Patent Act, that an inventor owns the ***1373** rights to his invention." *Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 563 U.S. 776, 790, 131 S.Ct. 2188, 180 L.Ed.2d 1 (2011); *see Teets v. Chromalloy Gas Turbine Corp.*, 83 F.3d 403, 407 (Fed. Cir. 1996) ("Ownership springs from invention."). Rather, the court found the straightforward standing logic recited above to be inapplicable in this matter because of the important qualification that "[w]hen the owner of a patent assigns away all rights to the patent, neither he nor his later assignee has a 'concrete financial interest in the patent' that would support standing in a correction of inventorship action." *Trireme Medical, LLC v. AngioScore, Inc.*, 812 F.3d 1050, 1053 (Fed. Cir. 2016) (quoting *Chou*, 254 F.3d at 1359).

According to the district court, the facts indisputably show Mr. James to have done just that—*i.e.*, to have assigned away, or entered into an enforceable agreement to assign away, any ownership rights he may have had in the patent. The correctness of that ruling is the sole issue before us. If the district court was right, then Mr. James lacks standing for want of any concrete interest in securing recognition as the sole inventor of the patent. [3]

The district court held specifically that, even if Mr. James was an inventor (even the sole inventor), he had assigned, or obligated himself to assign, his patent rights to JFAX. *James*, 2016 WL 9450470, at *3–5. The court relied on two related sources for that conclusion: (1) the SDA; and (2) the "hired-to-invent doctrine." Neither source, we conclude, properly supports the conclusion of assignment or obligation to assign at this stage of the proceedings.

B

The district court concluded that "the SDA necessarily precludes plaintiff from retaining ownership of the patent rights." *James*, 2016 WL 9450470, at *5. We disagree. Under the standards appropriate at this stage of the proceedings, which require that "the court construe[ ] all factual disputes in favor of" Mr. James, *id.* at *3, we cannot conclude that the SDA precludes Mr. James from retaining ownership rights in patents on his inventions—either as itself an assignment or as a contract to assign.

The Patent Act provides that patents and patent applications are "assignable in law by an instrument in writing." 35 U.S.C. § 261. "Although state law governs the interpretation of contracts generally," whether a contract "creates an automatic assignment or merely an obligation to assign" is a matter of federal law. *DDB Techs., L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008); *see Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1364 (Fed. Cir. 2010); *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1253 (Fed. Cir. 2000). On the automatic-assignment side of the line is a "contract [that] expressly conveys rights in future inventions." *Abraxis*, 625 F.3d at 1364. On the other side of the line is a "mere promise to assign rights in the future." *Id.* at 1365. "In construing the substance ***1374** of [an alleged] assignment, a court must carefully consider the intention of the parties and the language of the grant." *Israel Bio-Eng'g Project v. Amgen, Inc.*, 475 F.3d 1256, 1265 (Fed. Cir. 2007) (citing *Vaupel Textilmaschinen KG v. Meccanica Euro Italia SPA*, 944 F.2d 870, 874 (Fed. Cir. 1991)).

The SDA is amenable to the construction that it does not assign, or promise to assign, patent rights that would otherwise accrue to Mr. James as an inventor. The district court relied in its ultimate analysis on the SDA's preamble, which states that the contract set the terms on which GSP "will develop software solutions for the exclusive use of JFAX Communications." J.A. 53; *see James*, 2016 WL 9450470, at *5 (rejecting Mr. James's position because it "would, for example, enable plaintiff to license the rights in contravention of JFAX's exclusive use"). But that language is not itself a conveyance of any rights and, in any event, does not clearly go beyond GSP-developed specific software products to encompass also any underlying patentable methods embodied in the specific code. It can be read as indicating that it is only the specific code that will be for JFAX's exclusive use.

The key SDA Section 3 is open to the same interpretation. It provides: "JFAX shall become the sole owner of all code and compiled software solutions as described in this Agreement as soon as it is developed, and GSP shall assign to JFAX all copyright interests in such code and compiled software." J.A. 55. It refers to "code," *i.e.*, sets of instructions, and "compiled software solutions," *i.e.*, the machine-readable ("compiled") translation of the source code that was written in a computer language. *See, e.g.*, *Blueport Co., LLC v. United States*, 533 F.3d 1374, 1377 n.1 (Fed. Cir. 2008) (explaining terminology of "source code" being "compiled" into "object code"); *Syntek Semi-conductor Co., Ltd. v. Microchip Technology Inc.*, 307 F.3d 775, 779 (9th Cir. 2002) (same). Indeed, the "compiled software solutions" language suggests that "software solutions"—the term in the SDA preamble—itself refers to the actual code, not underlying patentable methods. It is standard usage to speak of compiling the former, whereas we have been shown nothing to suggest a common, or even acceptable, usage of "compiling a method."

The same conclusion applies to SDA Section 2, which provides: "You agree to develop original software solutions, write original software routines, carry out testing and otherwise provide technological solutions for the JFAX system, and be responsible for the creation, execution and delivery to JFAX of a series of aspects of those solutions." J.A. 54. That language can be understood as referring only to the actual software and hardware delivered to JFAX, not to ownership rights in any patentable methods or systems invented in creating such products.

Further support for Mr. James's view of the SDA is found in the SDA's express reference to copyrights and complete silence about patents. As already noted, SDA Section 3, after stating that JFAX will become the owner of "all code and compiled software solutions," adds that "GSP shall assign to JFAX all copyright interests in such code and compiled software." Copyright extends only to the expression in source code or its compiled version, *i.e.*, object code, not to the underlying (potentially patentable) methods. *See, e.g.*, *Oracle America, Inc. v. Google Inc.*, 750 F.3d 1339, 1354–55 (Fed. Cir. 2014); *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596, 599, 602, 605 (9th Cir. 2000); *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 839–40 (Fed. Cir. 1992). Moreover, the operative ***1375** complaint alleges, with support from documents attached to the complaint, that Mr. James actually executed assignments of copyrights in the specific software for the three systems furnished to JFAX. There is nothing comparable for patents, which are not mentioned at all in the SDA.

We have discussed SDA provisions that either the district court addressed or about which the parties have made substantial arguments concerning the SDA's express contract terms. On that basis, we conclude that the SDA can, and therefore at the present stage of this case must, be construed in Mr. James's favor. So construed, the SDA does not deprive Mr. James of constitutional standing.

C

The district court's second basis for its decision, which is related to the first, likewise does not support the Rule 12(b)(1) dismissal for lack of standing. The court invoked the "hired to invent" doctrine of *United States v. Dubilier*

Condenser Corp., 289 U.S. 178, 187, 53 S.Ct. 554, 77 L.Ed. 1114 (1933), and *Standard Parts Co. v. Peck*, 264 U.S. 52, 59–60, 44 S.Ct. 239, 68 L.Ed. 560 (1924). In accordance with those decisions, we have summarized the doctrine as recognizing that an employer may "claim an employee's inventive work where the employer specifically hires or directs the employee to exercise inventive faculties." *Teets*, 83 F.3d at 407 (citing *Dubilier*, 289 U.S. at 187, 53 S.Ct. 554, and *Standard Parts*, 264 U.S. at 59–60, 44 S.Ct. 239). In certain circumstances involving employment, we have explained, "the employee has received full compensation for his or her inventive work." *Id.*

Because this "hired-to-invent" rule is "firmly grounded in the principles of contract law," *Banks v. Unisys Corp.*, 228 F.3d 1357, 1359 (Fed. Cir. 2000), its applicability depends on the particular relationship between the "employee" and "employer" in a given case where the rule is invoked. We have said that "[t]o apply this contract principle, a court must examine the employment relationship at the time of the inventive work to determine if the parties entered an implied-in-fact contract to assign patent rights." *Teets*, 83 F.3d at 407; *see also Gellman v. Telular Corp.*, 449 Fed.Appx. 941, 945 (Fed. Cir. 2011) (explaining that the hired-to-invent "doctrine is expressly equitable, and creates only an obligation for the employee to assign to his employer") (citing *Melin v. United States*, 478 F.2d 1210, 1213 (Ct. Cl. 1973)). And we have added that, "[a]s a matter of common law, after the Supreme Court's decision in *Erie Railroad v. Tompkins*, 304 U.S. 64, 58 S.Ct. 817, 82 L.Ed. 1188 (1938), state contract principles provide the rules for identifying and enforcing implied-in-fact contracts." *Teets*, 83 F.3d at 407 (applying Florida law).

Whether the doctrine is viewed as a matter of federal law or a matter of the state law of implied-in-fact contracts, its applicability in a given case depends on the terms of the contractual relationship of the parties. *See Dubilier*, 289 U.S. at 187, 53 S.Ct. 554 (explaining that the implied assignment of or promise to assign ownership rights "spring[s] from the contract of employment"). Here, there is no dispute that the asserted "employment" is based on the SDA. That contract governed the terms of JFAX's acquisition of the software-development services at issue.

This case involves a distinctive fact not present in the authorities j2 and AMT cite in support of their hired-to-invent argument. Specifically, we have been directed to no decision applying the hired-to-invent principle where the underlying agreement for engagement of services was between two artificial legal entities and to which the ***1376** inventor was not personally a party. Here, it was the partnership GSP, not alleged inventor Mr. James, that was engaged by JFAX through the SDA. As the case is presented to us, although the operative complaint does not carefully attend to the distinction between Mr. James and GSP, it appears from the SDA, on which j2 and AMT rely, that Mr. James was not himself an "employee" of JFAX or personally hired by JFAX.

Regardless, the SDA does not support a hired-to-invent inference so as to deny standing here. j2 and AMT rely on the terms of the SDA to argue that GSP was engaged, and thus Mr. James was hired, to invent, creating an implied contract to assign resulting inventions. The problem with this argument is essentially the same as the problem we have already identified as defeating the SDA-contract argument for Rule 12(b)(1) dismissal. Based on the provisions and arguments presented to us, the SDA is readily capable of being read *not* to assign or to promise to assign the patent rights at issue. Because the SDA largely or even wholly defines the terms of JFAX's alleged "hiring" of Mr. James (actually of GSP), there is at least a factual dispute about any implied assignment or promise to assign. And that conclusion, though sufficient on its own case-specific terms, may be further supported by cases recognizing a general legal principle that tightly limits the finding of an implied-in-fact contract where an express contract governs the parties' relationship. *See Atlas Corp. v. United States*, 895 F.2d 745, 754 (Fed. Cir. 1990); *Chase Manhattan Bank v. Iridium Afr. Corp.*, 239 F.Supp.2d 402, 409 (D. Del. 2002) (citing *Atlas*, 895 F.2d at 754). Accordingly, it was improper to dismiss the case under Rule 12(b)(1) for lack of standing based on the hired-to-invent principle.

III

For the foregoing reasons, we reverse the district court's order dismissing Mr. James's claims for lack of jurisdiction. We remand the case for further proceedings.

Costs awarded to appellant.

REVERSED AND REMANDED

All Citations

887 F.3d 1368, 126 U.S.P.Q.2d 1445

Footnotes

1 Mr. James alleges that the initial development of the Fax-to-Email system occurred in November and December 1995 while he was in Australia. The system was completed soon afterward in New York.

2 By the time the motion was filed, the only defendants left in the case were j2 and AMT. An additional j2 entity, also named as a defendant, was dismissed before the motion was filed. In addition to the standing-based jurisdictional argument, the motion advanced at least seven additional arguments for either dismissal or summary judgment.

3 We have recognized that, in some circumstances, interests other than ownership may support Article III standing. *See* *Shukh v. Seagate Tech., LLC*, 803 F.3d 659, 663 (Fed. Cir. 2015) (recognizing a "concrete and particularized reputational injury" apart from ownership); *Chou*, 254 F.3d at 1359 (recognizing a "concrete financial interest" apart from ownership). But Mr. James has not alleged any benefit he would receive from being named as an inventor, or even as the sole inventor, separate from his claim to be the true owner of the '638 patent. His standing therefore depends on his retention of ownership.

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