The IP Education of Dr. Reuben Goldberg Part IV

Get Shorty

Presented at the March 19, 2014, meeting of
The Pauline Newman American Inn of Court
at the Falls Church law offices of
Birch, Stewart, Kolasch & Birch, LLP

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Scenario

- Dr. Goldberg and Sal Corr's company, Endless Energy, LLC, (EE) took the energy industry by storm
- Dr. Goldberg and his crack team of scientists and engineers are working around-the-clock to get "secret sauce" production up to commercial scale
- A key EE scientist, Dr. Edith "Shorty" Bunker, recently left for Lovejoy Industries, taking with her key information about advanced Goldberg Cold Fusion Reactor (GCFR) technologies
- Advance reactor sales have slowed down and investment dollars are coming in at a trickle
- Jerry Skilling, EE's CEO, has gather an elite team to meet with EE's senior management to try to stave off the crisis

The Cast

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Walter D. Kelly, Jr., Esq., Jerry Skilling (CEO)
Robert T. Burns, Esq., Karl Lay (VP Secret Stuff)
William Cheng, Esq., Anthony Fastow (Competition Tiger Team Lead)
Tom M. Schaumberg, Esq., Matthew Koenig (ITC Counsel)
You, senior managers at an emergency EE meeting

Overview

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- Patents v. Trade Secrets
- Non-compete agreements
- Trade Secret Protection at the International Trade Commission (ITC)

Patents v. Trade Secrets: Current Situation

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- The Patent Office issued several patents for technologies related to the Goldberg Cold Fusion Reactor (GCFR)
- Soon after, Dr. Goldberg opened up a laboratory in St. Petersburg (Russia) and hired Dr. Edith "Shorty" Bunker to continue developing the Goldberg Cold Fusion Reactor
- EE decided that, rather than file patent applications for any new GCFR developments, EE would keep them as trade secrets
- Shorty had access to these trade secrets and may now be using them to help Lovejoy Industries, which recently opened a competing lab in Moscow

Patents v. Trade Secrets: Trade Secrets Defined

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- Generally defined as information that gives its owner a commercial advantage over those who do not know or use the information.
- Defined in Virginia as information that
  - is valuable because it is unknown and not readily ascertainable by others **through legitimate means**, and
  - is subject to efforts that are **reasonable under the circumstances** to maintain its secrecy
- Protected under state rather than federal law

Patents v. Trade Secrets: Why Trade Secrets Matter

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- Last as long as the information remains secret
- Protected under both civil and criminal law
- Potentially very valuable
  - $1.1 billion (*Gen. Motors Corp. v. Lopez de Arriortua*)
  - $600 million (*Seagate Tech. LLC v. Western Digital Corp.)*
  - $400 million (*Compuware Corp. v. IBM Corp.*)

Patents v. Trade Secrets: Patent Best Mode Trap

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- The AIA still requires inclusion of best mode in patent, but removes penalty for excluding
- Should still include because AIA does ***not*** preclude "unclean hands" defense to enforceability if best mode excluded from patent
- Consider whether there are other features that can be patented independently of the trade secret

Patents v. Trade Secrets: Comparison

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Patents

- Last twenty years from filing
- Must disclose "best mode"
- Usually becomes public 18 months from filing
- Protection obtained through patent prosecution, maintained by fees
- Civil relief only

Trade Secrets

- Last until disclosed or independently discovered
- Vulnerable to reverse engineering
- Protection obtained and maintained by safeguarding using reasonable precautions
- Civil and criminal relief

Patents v. Trade Secrets: Takeaways

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- Protected under state rather than federal law
- Last as long as the information remains secret
- Protected under both civil and criminal law
- Potentially very valuable

Non-Compete Agreements: Current Situation

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- When Endless Energy was first formed, it was the only company in the world in that field. Currently, there is at least one other company competing in the cold fusion market (i.e., Lovejoy Industries has announced that it is developing a reactor and will also create its own "special sauce")
- Previously, while working for EE, Dr. Edith "Shorty" Bunker was one of the scientists specializing in cold fusion technology
- After she began working for EE, Dr. Bunker signed an agreement stating:

  > As a condition of my further employment with EE I promise that, for five years from the end of my employment with EE, I will work in the design of fusion reactors for any commercial provider of goods and services related to fusion technologies

- In exchange for the non-compete agreement, Dr. Bunker was offered a honey-baked ham, a limited edition Endless Energy t-shirt, and a stipulation that if she worked for Endless Energy for fifteen years, eventually she would be promoted to the title of Chief Scientist
- Shorty also agreed that Virginia law would govern in all contract disputes
- Shorty's new job title at Lovejoy Industries is "VP Manufacturing Processes"

Non-Compete Agreements: Reasonableness (Common Law)

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A reasonable non-compete is:

1. No more restrictive than necessary to protect the employer's legitimate business interest.
2. Not unduly burdensome on the employee's legitimate efforts to earn a livelihood
3. Consistent with sound public policy.

Omniplex World Servs. Corp. v. US Investigations Servs., Inc., 618 S.E.2d 340 (2005)

Non-Compete Agreements: Usually Requires Consideration

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- Consideration furnished by the employer for the non-compete agreement must be connected to the employer's legitimate business interests
- Continued employment alone is sufficient consideration in an at will employment situation (*Alan J. Zuccari, Inc. v. Adams,* 42 Va. Cir 132 (Va. Cir. Ct. 1997)).
- Virginia courts have not addressed whether a change in terms and conditions of employment constitute sufficient consideration

Non-Compete Agreements: Legitimate Business Interests?

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- **What are Legitimate Business Interests?**
  - **It must be "narrowly drawn to protect the employer's legitimate business interest, is not unduly burdensome on the employee's ability to earn a living, and is not against public policy"** *Home Paramount Pest Control Cos. v. Shaffer*, 282 Va. 412 (2011)
  - **Employers may only utilize restraints that are "no greater than necessary to protect the employer's legitimate business interests."** *Motion Control Sys., Inc. vs. East*, 262 Va. 33, 37 (2001).
  - **Law recognizes ONLY two types of legitimate business interests**:
    - **1. preventing former employees from poaching clients; and**
    - **2. preventing employees from sharing confidential information, trade secrets, or proprietary information.**
      - *Paramount Termite Control Co., v. Rector*, 238 Va. 171 (1989) (enforced non-compete agreement against sales reps familiar with company's work specifications, pest control techniques, and cost estimate procedures), *overruled by Home Paramount*, 282 Va. 412.
      - *Parikh v. Family Care Center*, 273 Va. 284 (2007) (non-professional corporation could not engage in competing practice of medicine; thus, no legitimate business interest to preclude former employee, a physician, from practicing medicine)

Non-Compete Agreements: Other Considerations

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1. Function (scope and extent of restricted activity of non-enforceable agreement)

- ***Motion Control Systems, Inc. v. East*** *(The covenant stated the employee "will not ... directly or indirectly, own, manage, operate, control, be employed by, participate in, or be associated in any manner with the ownership, management, operation or control of ... any business that designs, manufactures, sells or distributes motors, motor drives or motor controls.")*

2. Geographic Scope

- ***Roanoke Eng'g Sales Co. v. Rosenbaum***, 223 VA. 548 (1982) *(upheld **3-year** restriction prohibiting employee from engaging in similar work to prior employer in **territory covered by his former employer**)*
- ***Strategic Resources, Inc. v. Nevin*** *(struck down non-compete clause **without a geographic restriction**. Although employer operated on a world-wide basis, clause was **not** restricted to employer's covered areas)*

3. Duration

- ***Alan J. Zuccari, Inc. v. Adams*** *(court upheld **5-yr restriction** preventing employer from doing business with employer's current clients since employee had gained **all** of his experience and contacts through his former employment)*

Non-Compete Agreements: Main Grounds Why Unenforceable

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1. Forbidding an employee from working in ***any*** capacity for a competitor
2. Preventing an employee from working for ***any*** company that supports the employer's customer
3. Preventing an employee from working for ***any*** business "similar to" the employer's business
4. Imposing ***overbroad*** geographical and durational restraints
5. ***Unduly burdening*** an employee's ability to find alternative employment
6. The restrictive covenant is ***vague***
7. The non-compete violates "***public policy***"
8. Coming soon: prohibitions that restrict "indirect competition"

Non-Compete Agreements: Preventing Employee from Working for Any Business Similar to the Employer's Business

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- Non-competes that ban an employee from being employed in any capacity by a competing company are often considered unreasonable (***Roto-Die Co. v. Lesser,*** 899 F.Supp. 1515 (W.D. Va. 1995))
- ***Motion Control Systems, Inc. v. East*** *(court struck down because the restricted activities in the clause could include a wide range of enterprises unrelated to the employer's business)*
- ***Landmark Tech, Inc. v. Canales,*** 454 F.Supp.2d 524 (E.D. Va. 2006) (covenant not to compete barred employees from assisting a competitor to "perform services similar" to those provided by the Employer. Court struck down because various critical terms such as "services" and "perform" were not defined in agreement—this ambiguity leaves employee guessing as to what conduct is prohibited)
- Non-compete agreements overly burdensome if its broad terms would render an employee a "virtual hostage[]" of his employer by prohibiting him from working in a field that was his specialty. ***UCB Manufacturing, Inc. v. Tris Pharma, Inc.,*** 2013 WL 4516012 (N.J. Super. Ct. App. Div. 2013) (unpublished)

Non-Compete Agreements: Discussion Points

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- Is Dr. Bunker's cold fusion reactor design background applicable to manufacturing?
- Is Dr. Bunker's title as VP of Manufacturing a façade?
- Is much of the information of the cold fusion process susceptible to reverse engineering or disclosed in a patent? Is it highly specialized?

Trade Secret Protection at the ITC: Current Situation

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- While EE's laboratory is in St. Petersburg (Russia), EE has a facility in Texas where it manufacturers Goldberg Cold Fusion Reactors
- Lovejoy Industries is ramping up its efforts to build and market a competing reactor (the Chili Fusion Reactor), which will be manufactured overseas and imported into the United States
- Shorty's use of secret knowledge from EE is shortening up Lovejoy Industries' development time significantly

Trade Secret Protection at the ITC

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Subsection A of Section 337 declares the following "unlawful":

> ***Unfair methods of competition*** and ***unfair acts*** in the importation of articles … into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is—
>
> (i) to destroy or substantially injure an industry in the United States;
>
> (ii) to prevent the establishment of such an industry; or
>
> (iii) to restrain or monopolize trade and commerce in the United States.

19 U.S.C. § 1337(a)(1)(A).

Trade Secret Protection at the ITC

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Cast Steel Railway Wheels, Inv. No. 337-TA-655 (March 19, 2010)

- Unfair Acts in Notice: Trade Secret Misappropriation
- Complainant: Amsted Industries Incorporated
- Respondents: TianRui Group, Standard Car Truck, Barber TianRui Railway
- Disposition: Violation Found; Cease & Desist Order; Limited Exclusion Order

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- Federal Circuit held (661 F.3d 1322):
  - Section 337(a)(1)(A) has extraterritorial reach over trade secret claims
  - The ITC should apply a uniform federal standard, not state trade secret law
  - Violation may be found even though the unfair acts (trade secret misappropriation) occurred entirely in China
  - The Commission has authority over imported products that were made using a misappropriated trade secret even when (1) the misappropriation occurs entirely outside the United States and (2) the domestic industry is not practicing the trade secret

Trade Secret Protection at the ITC

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Four investigations in the last two years:

- Certain Rubber Resins (Inv. No. 337-TA-849)
  - Ten (10) year limited exclusion order entered January 15, 2014.
- Certain Paper Shredders (Inv. No. 337-TA-863)
  - Settled.
- Certain Robotic Toys (Inv. No. 337-TA-869)
  - Settled.
- Certain Crawler Cranes (Inv. No. 337-TA-887)
  - Pending.

Questions and Comments

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Credits

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