

In this Issue:

S.C. Supreme Court Upholds Confidentiality and “Holdover” Inventions Assignment Clauses in Employment Agreement

By David Dubberly

The America Invents Act: The Big Lesson Learned In The First Year

By Michael A. Mann

The U.S. Patent And Trademark Branch Office Near You

By Michael A. Mann

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In its most significant employment law decision of 2012, *Milliken & Co. v. Morin*, the South Carolina Supreme Court addressed the enforceability of provisions in an employment agreement designed to protect the employer’s intellectual property from unfair competition.

The case arose when one of Milliken’s research scientists and its team leader for the Advanced Yarns Team resigned to start a company to market a new type of fiber. The scientist had developed the idea for the new type of fiber while working for Milliken, and in the months following his resignation he used the idea he developed at Milliken to invent a new fiber. In the suit, Milliken alleged it owned the rights to the new fiber.

The scientist’s employment agreement with Milliken contained a confidentiality clause that prohibited him from using, disclosing, modifying, or adapting any “competitively sensitive information of importance to and kept in confidence by Milliken” for three years after leaving the company.

The agreement also contained an inventions assignment clause stating that any inventions by the scientist, patentable or not, relating to Milliken’s business or research – or resulting from work he performed for the company during his employment – were the property of Milliken. The inventions assignment clause had a “holdover” provision stating that such inventions developed within one year after termination of employment also belonged to Milliken. (See the box below for types of provisions in employment agreements that can help protect against unfair competition by former employees.)

Milliken sued the scientist for breach of his confidentiality and inventions assignment covenants (as well as for breach of his duty of loyalty and violation of the South Carolina Trade Secrets Act). The scientist argued these covenants were invalid because they were legally equivalent to non-compete agreements, which are disfavored by the courts and strictly construed against employers.

The state Supreme Court affirmed a jury verdict for Milliken, ruling that confidentiality and holdover inventions assignment agreements are not the same as non-competes because they do not “restrain trade.” (The jury decided for the scientist on the duty of loyalty and Trade Secrets Act claims.) Confidentiality agreements “seek to restrict disclosure of information, not employment opportunities,” wrote the court. And holdover inventions assignment agreements “do not operate in restraint of the employee’s trade but merely vest ownership of an invention with the entity which ought to have it.”

Therefore confidentiality and holdover inventions obligations should be analyzed under the more lax standard of “reasonableness.” To be reasonable, these restrictions should be “no greater than necessary to protect the employer’s legitimate interests” and they should not “curtail the employee’s ability to earn a living.”

Viewed under the standard of reasonableness, Milliken’s inventions assignment clause passed muster because it expressly excluded from assignment work done without use of Milliken’s resources and on the employee’s own time as long as it did not relate to Milliken’s business or R&D. It also excluded inventions that did not result from any

work performed for Milliken. And the one-year holdover was, according to the court, “eminently reasonable.”

The confidentiality clause was reasonable because it encompassed only proprietary information and did not attempt to restrain the employee from using his general skills and knowledge in the future. The three-year limit on the restriction was also reasonable, even though, as the court wrote, “the absence of a time limitation in a confidentiality clause will not automatically render it invalid.”

In *Milliken*, the court made clear it still views non-competes as restraints on trade that will be enforced only if specific criteria are met. (See “Looking to Hire? Be Careful with Non-compete Deals,” for more on the enforcement criteria for non-competes.)

Confidentiality and inventions assignment clauses, including holdover clauses, that are so broad and vague they look like non-competes are likely to be subject to the same strict scrutiny as non-competes. But if written carefully, as they were in *Milliken*, these kinds of provisions are likely to meet the reasonableness standard and to serve their intended function of protecting proprietary information. [↗](#)

Contractual Provisions That Can Help Protect Against Unfair Competition By Former Employees

- **Confidentiality:** Typically prohibit improper disclosure or use of confidential business information learned during employment. (“Trade secrets” as defined by the South Carolina Trade Secrets Act are protected by that statute.)
- **Inventions assignment:** Typically state that certain inventions developed during employment are the property of the employer.
- **“Holdover” inventions assignment:** Typically state that certain inventions developed during employment and a specified period of time after employment are the property of the employer.
- **Non-solicitation:** Typically prohibit soliciting employees, customers or suppliers of the employer for a specified period.

- **Non-compete:** Typically prohibit competing with the employer for a specified period.



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The America Invents Act: The Big Lesson Learned In The First Year

By Michael A. Mann

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Since the Smith-Leahy America Invents Act (AIA) was signed into law on September 16, 2011, a handful of court decisions have turned on provisions of the act. While the full significance of this legislation on patent jurisprudence is far from manifest, one provision of the new law is having a major effect on “false marking” lawsuits, which had become a mutant species of litigation. Nine separate “false marking” suits have been decided based on the AIA amendments. The Court of Appeals for the Federal Circuit¹, and federal district courts in California², Illinois³, New York⁴, Pennsylvania⁵, and Texas⁶ have used the AIA to throw out false marking claims or counterclaims in pending lawsuits.

Section 292 of the pre-AIA Patent Act allowed a *qui tam* action (i.e. an action brought by a relator, not necessarily a party that suffered actual damages) against those who marked goods with a “false” patent number. The plaintiffs, many of whom were never injured, enjoyed half of the recovery while the government received the other half. The AIA prohibits *qui tam* actions in the false marking context and, instead, permits only the US Government or those who can demonstrate “commercial injury” to bring an action for false marking.

The impact of the AIA on false marking suits is not surprising. But, the fact that false marking suits achieved “vexatious litigation” status is ironic given the original intent of the law. When first enacted, section 292’s *qui tam* action was thought to represent an effective deterrent against those who intentionally and falsely mark their products with bogus

patent numbers. However, the vast majority of cases alleging a violation of section 292 have been brought against those whose products have simply continued to carry an expired patent number. A cottage industry sprang up in recent years as those with no connection to the marked products brought suit simply for their share of the \$500 per product fine.


To rid the US courts of this virus, Congress made several changes to the law and, to drive the point home, made the pertinent amendments effective retroactively, without exception, to all actions pending on or commenced after the date of the AIA's enactment. Indeed, the new section 292 expressly provides that marking a product with a patent number that once applied to the product (notwithstanding that the patent is expired) is not a violation of the false marking provision of the new section 292.

The Court of Appeals for the Federal Circuit not only read the law but got the message. In *Brooks v. Dunlop Manufacturing Inc.*, the plaintiff appealed the dismissal of his false marking case by a California federal district court pursuant to the amended section 292. The plaintiff in *Brooks* accused Dunlop Manufacturing of marking guitar strings with the patent number of a patent that had not only expired but had also been invalidated. On appeal, the plaintiff argued that the Due Process Clause of the US Constitution prevented Congress from applying the AIA amendment to pending *qui tam* actions because the act of instituting suit operated to bind the federal government to a unilateral contract and the retroactive application of the amendments to section 292 deprived him of this contract right.

The Court of Appeals did not find the plaintiff's arguments compelling. It dismissed his arguments finding instead that his "contract" was not in writing, no judgment in his favor had been rendered or was final, Congress acted rationally to stop this type of vexatious litigation, a *qui tam* action merely gave the plaintiff standing (which Congress could (and did) easily take away), and that by doing so Congress did not deprive him of any vested property right.

In another case, *Seirus Innovative Accessories Inc. v. Cabelas, Inc.*, filed in the US District Court for the Southern District of California and decided just over a month after the AIA was signed into law, the court not only granted summary judgment for the patent infringement plaintiff on the defendant's counterclaim for false marking, the court rubbed it in by listing the types of evidence the defendant *had failed to present* in trying to meet its statutory burden of proving competitive injury under the newly-enacted law. The court explained that the defendant

failed to show that it and the plaintiff were in fact competitors, failed to designate an expert to testify about the competitive injury, and failed to provide evidence that it had suffered money damages or lost property.

There is a lesson here. Congress and the courts have little patience with litigants whose business model involves abusing the laws and judicial resources of the government to further their strategic agenda. 

¹Brooks v Dunlop Manufacturing Inc., (Fed. Cir. 2012), decide December 13, 2012

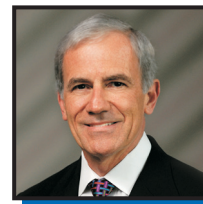
²Seirus Innovative Accessories Inc v Cabela's Inc. 100 USPQ2d 1953 (S.D. Cal. 2011)

³Colverleaf Golf Course Inc v FMC Corporation, (S.D. Ill 2012) decided March 20, 2012; Fasteners for Retail Inc. v. Anderson, 101 USPQ2d 1076 (N. D. Ill. 2011); Buehlhorn v. Marv-O-Lus Mfg. Co., 102 USPQ2d 1071 (S. D. Ill. 2011); Turek v. McNeil-PPC Inc., 99 USPQ2d 1805 (S. D. Ill. 2011)

⁴Stauffer v. Brooks Brothers Inc., (S.D.N.Y 2012, decided December 19, 2012

⁵Rogers v. Tristar Products Inc., 99 USPQ2d 1438 (E.D. Pa. 2011)

⁶Kilts Resources LLC v. Uniden Direct In USA Inc., 100 USPQ2d 1088 (E.D. Tex. 2011)



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The U.S. Patent And Trademark Branch Office Near You

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The US Patent and Trademark Office has historically had only a single office in the Washington, D.C. area. The new Smith-Leahy America Invents Act, however, calls for the establishment of three branch offices of the USPTO. The first one of the branch offices just opened its doors in Detroit, Michigan, and has been named the Elijah J. McCoy United States Patent and Trademark Office.


What better place could there be for the first branch office of the US Patent and Trademark Office than Detroit? I know it is the first place I thought of -- after Boston, Palo Alto, Chicago, Austin, Ann Arbor,

Raleigh and about twelve other places. But the logic of this choice is abundantly clear now! Detroit -- "motor city" -- has long been the automotive capital of the US. Why not make this branch a "drive-in" Patent Office. Likewise, a branch office in Houston could be a "satellite" office. And no need for an actual office in Silicon Valley -- the one "there" would be a "virtual" office. And why not one in Williamsburg, Virginia, where the examiners would dress as they did in the early days of the Patent Office to the delight of busloads of school children who want to know how to make potash and gin cotton? Of course, there should be a branch office on Wall Street for business method patents, like "Method and System for Making a Banking Institution Failure Proof."

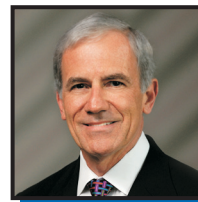
Three branches are clearly not going to be enough. Everyone will want one. Why not put one next to every Starbucks? Why stop with domestic branches? Let's have branches in other countries so our friends there can file patent applications in the US Patent and Trademark Office. We can start with at least one Patent Office branch in each NAFTA country. Why not put one in Tehran next to where our embassy used to be as a goodwill gesture?

I know what you're thinking. "What about the expense!" These offices don't have to be expensive. A branch office could simply be a walk-up kiosk with a monitor and some buttons and a couple of slots to receive documents and issue receipts, and maybe a USB port. One button, the big one, would be the HELP button. When you press it, a friendly, deep male voice says, "Welcome to the United States Patent and Trademark Office. For English, press 1;

to repeat this message, press 1." Visitors to these kiosks can watch helpful videos of the commissioner's recent press releases, documentaries on the early days of the Patent Office, and maybe funny YouTube-type videos of examiner interviews during which the inventor's demonstration of an invention goes horribly wrong.

To make sure everyone knows where the nearest US Patent Office branch is, the Patent Office needs to advertise on the internet. The Patent and Trademark Office could purchase the use of key search terms like "idea," "royalty," "gadget," and "ex parte Quayle" from Google and then, any time one of these terms is used in a search, the top entry in the search results string would be the US Patent and Trademark Branch Office near you. 

Editor's note: Club owners and promoters who want to book Mike Mann's one-man show, should contact him directly at mmann@nexsenpruet.com. No, we are not serious!



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