

EMPLOYEE PATENTS

*Henry H. Perritt, Jr.**

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INTRODUCTION

Tim Bainbridge went to work for Jacquot Manufacturing Company right after he graduated from engineering school. He was assigned to the research and development branch on a team working to develop new techniques for roller bearings in helicopter rotors. Tim's membership on the team was not exactly welcomed because its other members, all of them a decade or more older than Tim, were accustomed to drawing comfortable salaries and going through the motions of research and development without making much progress. Tim was ambitious and loved engineering. Before long, he came up with an idea for improving roller bearing lubrication by cutting tiny grooves in the bearings, causing them to retain small amounts of lubricant. He excitedly prepared a patent application but was laid off before it could be filed.

He subsequently learned from one of the secretaries he had befriended that a patent application had been filed, but Tim's name had been left off of it; he was not listed as a coinventor.

Sally McHenry was a member of a research and development team at Chatham Pharmaceuticals. She and the other members of her team worked in great secrecy to develop new medicines to treat athletic injuries. The team had come up with a new formulation that was very effective in eliminating cramps when it was applied to the skin in a spray formulation. Sally was unhappy with her compensation and with the respect her coworkers gave her. She contacted a headhunter and, with the headhunter's aid, landed a job with Sportsmed, a startup competitor of Chatham's. Sportsmed told Sally that her primary assignment was to use the information she had learned in her former job to obtain a patent and to assign the patent to Sportsmed. In exchange, she would receive a handsome share—40%—of the royalties earned by products incorporating the patent.

Matthew Finley worked as a manufacturing engineer for Cedar Creek Machine Tools. His assignment involved taking a patent that Cedar Creek had recently obtained and turning the patent into an automated machine tool

product. Finley labored for a year designing the elements of the machine tool that embodied the claims and specifications of the patent. He was proud of his accomplishments and was disappointed when Cedar Creek gave him little recognition and no pay raise after it put his machine-tool into production and started selling it with great success. Finley looked around for another job and accepted an offer from Scottsville Fabrication. Scottsville was eager for Finley to use what he had learned at Cedar Creek to help it develop competing products. It hoped that those products could embody improvements on Cedar Creek's patents on which Scottsville could obtain patents of its own.

Under U.S. patent law, only individuals like Tim, Sally, and Matthew can be inventors eligible to obtain patents.¹ Their inventive labors are frequently supported financially by business organizations having larger resources, like Jacquot Manufacturing, Chatham Pharmaceuticals, and Cedar Creek. Even when the individuals develop inventions on their own, they usually require the resources of larger enterprises to obtain patents and then to commercialize them.² These sponsors almost always insist that the individual assign patent rights to the sponsor.

Sometimes, as the McHenry and Finley hypotheticals suggest, individual inventors receiving enterprise sponsorship refuse to assign their patents or patent applications and the enterprise looks for a way to compel them to do so.

In other situations, as in the Bainbridge hypothetical, the enterprise dismisses an inventor on the threshold of an important discovery, deprives him of the resources to reduce his invention to practice, and applies for a patent in the names of others, leaving the inventor off the patent application as a coinventor. In that situation, the individual is interested in getting his name on the patent, perhaps removing the names of other less deserving people, and in recovering damages and lost profits.

* Professor of Law Emeritus, and former dean, Chicago-Kent College of Law, Illinois Institute of Technology. Author of 25 books and more than 100 law review articles on labor and employment law, administrative law, law and technology, and international relations, including *Employee Dismissal Law and Practice* (6th ed. 2024) and *Trade Secrets for the Practitioner* (3d ed 2024). Democratic nominee for the U.S. House of Representatives, Illinois 10th District, 2002. Former member, National Academy of Sciences Computer Science and Telecommunications Board. Member of the bar: Virginia, Pennsylvania (inactive), District of Columbia, Maryland, Illinois (retired), USPTO, and the Supreme Court of the United States. Commercial helicopter, private instrument airplane, and drone pilot. Extra-class radio amateur (K9KDF). The author has written elsewhere about some of the issues considered in this article. See Henry H. Perritt, Jr., *Who Invented It? Streamlining Determination of Patent Inventorship*, 79 UNIV. MIAMI L. REV. 1 (2024) (criticizing unduly restrictive standing requirements for actions challenging inventorship on patents and patent applications).

¹ 35 U.S.C. § 100(f).

² HENRY WILLIAM CHESBROUGH, *OPEN BUSINESS MODELS: HOW TO THRIVE IN THE NEW INNOVATION LANDSCAPE* 6 (2006).

Sometimes, as in the Finley hypothetical, individuals leave employment with an enterprise that obtains a patent. The individual subsequently discloses or uses the information covered by the patent, and the former employer sues him for trade secret misappropriation. In this situation, does the published patent make any difference to the trade secret claim?

Employment relationships like these are often the matrix for patent disputes. But patent disputes are not limited to employers and employees.³ Competitors with no prior relationship sue one another for infringement, seek to invalidate patents in post-grant review proceedings before the United States Patent and Trademark Office (USPTO), and seek priority for their own patents in derivation proceedings.⁴ Actual and potential trading partners, engaged in or considering supplier relationships, often exchange trade secret information that subsequently ripens on one side or the other into patent applications or patents.⁵ Although the details of those stranger relationships⁶ are beyond the scope of this article, many principles involving strangers also apply to employment relationships.

Patent rights are intertwined with trade secrets.⁷ Copyright and trademark also may be involved in disputes centered on patents and trade secrets, but copyright and trademark disputes are beyond the scope of this article.

When someone claims that rights have been violated, the possible involvement of patent law means that tricky questions of federal preemption may be involved.⁸ Patent disputes are within the exclusive jurisdiction of the federal courts.⁹ But local trade secret disputes may not involve either federal question or diversity jurisdiction and, therefore, would be relegated to state court.

Both employers and employees face a daunting array of legal theories and dispute resolution forums over patents and potential patent claims, an array that can bankrupt individual inventors and sap profitability and executive focus in enterprises. The best way to protect themselves is by attentively and carefully drafting invention-assignment and non-disclosure agreements that address the interests and scenarios they most care about.

³ *Patent litigation 101*, THOMPSON REUTERS LEGAL (Oct. 27, 2022), <https://legal.thomsonreuters.com/blog/patent-litigation-101/#what-are-types-of-patent-infringement> [<https://perma.cc/XC4U-S8YF>].

⁴ *Post Grant Review*, UNITED STATES PATENT AND TRADEMARK OFFICE, <https://www.uspto.gov/patents/ptab/trials/post-grant-review> [<https://perma.cc/WZC4-9RLD>].

⁵ See HENRY H. PERRITT, JR., *TRADE SECRETS FOR THE PRACTITIONER* ch. 7 (3d ed. 2024) (analyzing stranger relationships regarding intellectual property).

⁶ *Id.*

⁷ Michael R. McGurk & Jia W. Lu, *The Intersection of Patents and Trade Secrets*, 7 HASTINGS SCI. & TECH. L.J. 189, 190 (2015).

⁸ 28 U.S.C. § 1338(a).

⁹ *Id.*

This article is meant to sensitize potential disputants and their counsel to the ways in which disputes may play out and the legal theories likely to be asserted by each side. Understanding the possibilities empowers the drafter.

Part I explores the legal contours of the employment relationship, its presumed terminability at-will, and its implied duties. It also presents a sample invention assignment agreement.

Part II inventories the wrongful conduct that may put disputes related to intellectual property in motion, such as infringement of patents, misappropriation of trade secrets, failure to pay promised compensation for assignment of rights, refusals to assign rights, and failure to name co-inventors on patents.

Part III considers the remedies the law makes available for these wrongs, including injunctions and damages, but also the correction of inventorship.

Part IV identifies forums within which the remedies can be sought, including the USPTO, federal court, and state court. Each has significant jurisdictional limitations and restrictions on the relief it can afford.

Part V explains how employers and employees can maintain awareness of conduct in the Patent Office and in the marketplace that may affect their intellectual property rights.

I. THE EMPLOYMENT RELATIONSHIP

Employment relationships have legal status regardless of whether an express contract defines the relationship.¹⁰ The employee would not be working, and the employer would not pay her unless they had a contract of some kind.¹¹

The employment relationship is a common source of implied duties, such as the duty of loyalty and fiduciary duties.¹²

A. *At-Will Presumption*

Employment in the United States is presumed to be terminable at-will, meaning that an employer can dismiss an employee, or an employee can quit at any time, for any reason, or no reason.¹³ The presumption, however, does not disable the employer and employee from entering into contracts that limit the power and privilege of dismissal or that adjust other rights and duties, such as those relating to confidential information, innovation, and patents.

¹⁰ HENRY H. PERRITT, JR., *EMPLOYEE DISMISSAL LAW AND PRACTICE* § 6.01 (6th ed. 2024) (explaining contract theories).

¹¹ *Id.*

¹² *Adnet, Inc. v. Soni*, 66 F.4th 510, 515 (4th Cir. 2023).

¹³ PERRITT, *supra* note 10, at ch. 1 (analyzing at-will presumption).

Often, express contracts define the relationship, either in its entirety or with respect to particular rights and duties associated with it, especially those related to intellectual property, such as trade secrets and patents.

B. Duty of Loyalty

In *Adnet, Inc. v. Soni*,¹⁴ the court of appeals held that an employee “‘owes a fiduciary duty of loyalty to his employer during his employment’ in Virginia. Subsumed within this general duty of loyalty is the more specific duty that the employee not compete with his employer during his employment.”¹⁵ It also characterized Virginia law as treating misappropriation of trade secrets as a breach of the duty of loyalty.¹⁶

The court of appeals reversed the district court for construing the duty too narrowly.¹⁷

In *Anderson Chemical Co. v. Green*,¹⁸ the Texas intermediate appellate court explained, “[i]n addition to contractual obligations, there is a common law duty of an employee not to use confidential or proprietary information acquired during the relationship adversely to his employer, and that obligation survives the termination of employment.”¹⁹

The scope of the duties imposed on employees in an implied confidential relationship with their employer is well established.²⁰ As Section I.C explains, some employees in some states have fiduciary obligations growing out of their duty of loyalty to their employers.²¹ “The employment relationship by its nature ordinarily justifies an inference that the employee consents to a duty of confidence with respect to any information acquired through the employment that the employee knows or has reason to know is confidential.”²²

¹⁴ See *Adnet*, 66 F.4th at 515 (citing *Williams v. Dominion Tech. Partners, L.L.C.*, 576 S.E.2d 752, 757 (2003)).

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.* at 521.

¹⁸ *Anderson Chem. Co. v. Green*, 66 S.W.3d 434 (Tex. Ct. App. 2001).

¹⁹ *Id.* at 442.

²⁰ See, e.g., RESTATEMENT (SECOND) OF AGENCY § 395 (AM. L. INST. 1958); *Anderson*, 66 S.W.3d at 442 (employee has common law duty not to use confidential or proprietary information acquired during employment relationship, and obligation survives employment termination).

²¹ E.g., *Union Pac. R.R. v. Mower*, 219 F.3d 1069, 1073–74 (9th Cir. 2000) (“Oregon law imposes on every employee a legal duty to protect employer’s trade secrets” but that duty is subject to modification by express agreement; resignation agreement had a time limit on nondisclosure obligations and thus former employee was free to disclose after that time); *Snepp v. United States*, 444 U.S. 507, 518 (1980) (Stevens, J., dissenting from imposition of constructive trust on proceeds of book written without CIA permission); Susan J. Becker, *Discovery of Information and Documents from a Litigant’s Former Employees: Synergy and Synthesis of Civil Rules, Ethical Standards, Privileged Doctrines, and Common Law Principles*, 81 NEB. L. REV. 868, 975–76 (2003) (citing this book on the implied duty of an employee to protect the confidentiality of an employer’s business).

²² RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. c. (AM. L. INST. 1995).

In *Nationwide Mutual Insurance Co. v. Mortensen*,²³ the court of appeals observed that, under Connecticut law, the duty of loyalty may protect a broader class of confidential information than trade secrets, although it found that the information in question was not confidential.²⁴

In *Gruenwald v. Advanced Computer Applications, Inc.*,²⁵ the Pennsylvania intermediate court rejected a claim by a former president of a company that the company's continued use of software developed by him after he left the company constituted trade secret misappropriation. The court concluded that the patent shop right doctrine, by implication, obligated the plaintiff to assign his trade secrets to a corporation of which he was a director and to which he thereby had a fiduciary obligation, noting evidence showing that the plaintiff handled the alleged trade secrets as though they belonged to the corporation rather than to him personally.²⁶ "[A]ny protectable trade secrets belong to ACA [the employer]."²⁷

The scope of implied duties is wider during the employment relationship than afterward. An employee impliedly is barred from competing with his employer while he is employed, but post-employment restrictions on competition are disfavored.²⁸ Similarly, the information protected by implied duties of non-disclosure and limited use is greater in scope than trade secrets during employment but probably not greater than trade secrets afterward. In general, in the absence of an express agreement, the employee has no duty not to compete with the former employer.²⁹ However, with respect to confidential matters, the scope of restrictions on use and disclosure is similar to the scope of restrictions imposed during the employment.³⁰ The employee "is entitled to use general information concerning the method of business of

²³ *Nationwide Mut. Ins. Co. v. Mortensen*, 606 F.3d 22 (2d Cir. 2010).

²⁴ *Id.* at 29–30.

²⁵ *Gruenwald v. Advanced Comput. Applications, Inc.*, 730 A.2d 1004 (Pa. Super. Ct. 1999).

²⁶ *Id.* at 1013–14. The shop right doctrine imposes a non-assignable license in an employee's patent in favor of the employer, when the employee who works in a general or noninventive capacity creates an invention using the employer's time and materials. *See White's Elecs., Inc. v. Teknetics, Inc.*, 677 P.2d 68, 70–71 (Or. Ct. App. 1984).

²⁷ *Gruenwald*, 730 A.2d at 1014.

²⁸ *See FTC Announces Rule Banning Noncompetes*, FED. TRADE COMM'N (Apr. 23, 2024), <https://www.ftc.gov/news-events/news/press-releases/2024/04/ftc-announces-rule-banning-noncompetes> [<https://perma.cc/7XXP-EV36>] (federal trade commission release announcing ban on post-employment noncompete clauses); *see also* Danielle Kay, *Judge Blocks F.T.C.'s Noncompete Rule*, N.Y. TIMES (Aug. 20, 2024), <https://www.nytimes.com/2024/08/20/business/economy/noncompete-ban-ftc-texas.html> (newspaper article about litigation challenging that same ban).

²⁹ RESTATEMENT (SECOND) OF AGENCY § 396(a) (AM. L. INST. 1958).

³⁰ *See id.* § 396(b); *see also* *Surgidev Corp. v. Eye Tech., Inc.*, 648 F. Supp. 661, 694 (D. Minn. 1986) (enjoining defendant/former employee from soliciting former employer's customers where list of names were obtained by employees in the course of their employment); *Dionne v. Se. Foam Converting & Packaging, Inc.*, 397 S.E.2d 110, 114 (Va. 1990) (enjoining defendant/former employee from using employer's trade secret concerning the processing and manufacturing of a special type of packaging material); *Junker v. Plummer*, 67 N.E.2d 667, 669 (Mass. 1946) (enjoining defendant/former employee from using machine that qualified as a trade secret belonging to his former employer).

the principal and the names of the customers retained in his memory, if not acquired in violation of his duty.”³¹ After employment ends, the policy reasons for not implying a duty of nondisclosure or nonuse of information not qualifying as trade secrets become stronger. Even if one has an implied duty while employment continues not to use any form of confidential information, even information not qualifying as trade secrets, this duty should end when employment ends lest the implied duties impose restrictions on the free flow and use of information, conceptually inconsistent with patent and copyright law.

*Lamorte Burns & Co. v. Walters*³² involved a claim that employees spent work time preparing to leave their employment and to prepare for future employment in a newly created business entity established by them to compete directly with their current employer, an insurance claim adjusting firm. The employees had signed a confidentiality agreement covering “all proprietary data and other confidential information.”³³ The trial court found that the defendants had breached their duty of loyalty and misappropriated confidential and proprietary information, among other things, based on evidence that they took clients’ names, addresses, telephone and fax numbers, file numbers, accident dates, details concerning individual claims, and billing rates.³⁴ Although the New Jersey Supreme Court found that the information taken well might qualify for trade secret protection, the court held, significantly, that “information need not rise to the level of a trade secret to be protected.”³⁵ It found that the employees’ duty of loyalty, including a duty not to compete with an employer, supported damages.³⁶ It did not matter that no solicitation occurred until after employment terminated:

An employee’s duty to loyalty to his or her employer goes beyond refraining from privately soliciting the employer’s customers while still employed. The duty of loyalty prohibits the employee from taking affirmative steps to injure the employer’s business. Defendants purloined protected information from plaintiff’s . . . claim files while still employed, for the sole purpose of effecting an advantage in competing with plaintiff immediately upon their resignation and commencement of their new competitive business.³⁷

³¹ RESTATEMENT (SECOND) OF AGENCY § 396(b) (AM. L. INST. 1958); see, e.g., *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 259 (1967) (discussing the importance of allowing a skilled employee to have mobility in the job market without unreasonable restrictions on information “absorbed as part of his general . . . professional background”).

³² *Lamorte Burns & Co. v. Walters*, 770 A.2d 1158 (N.J. 2001).

³³ *Id.* at 1161.

³⁴ *Id.* at 1164.

³⁵ *Id.* at 1166.

³⁶ *Id.* at 1168.

³⁷ *Id.* at 1169–70.

In *Hickory Specialties, Inc. v. Forest Flavors International, Inc.*,³⁸ an employer's action against a former employee for trade secret misappropriation resulted in a jury finding for the employee. Rejecting the employer's motion for a new trial, the federal district court held that "a former employee is not, under Tennessee law, bound not to divulge confidential information unless that information would qualify as a trade secret."³⁹ In addition, the court held that information disclosed in a patent made the disclosed information nonsecret, even if the employee never knew of the patent.⁴⁰ Lastly, it held that even though reference to earlier litigation was arguably relevant as evidence of the employer's efforts to protect its trade secrets, its probative value was outweighed by the prejudice and confusion it would cause.⁴¹

In *North Atlantic Instruments, Inc. v. Haber*,⁴² however, the United States Court of Appeals for the Second Circuit held that an employee had an implied duty not to use confidential knowledge of a customer list in competition with his former employer. Similarly, in *Bond v. Polycycle*,⁴³ the Maryland intermediate court held that a key employee owed a duty not to appropriate computer files and drawings even though he already had resigned. "[T]he date of appellant's resignation from his position as an officer was immaterial, because the recycling technology is the property of PolyCycle."⁴⁴ The court noted that "[a]s a general rule, a former employee is obligated not to disclose or use the confidential information acquired during his employment."⁴⁵

C. Fiduciary Obligations

Employees may have fiduciary obligations to their employers arising from the employment relationship, but the authority is mixed. In *Wesco Autobody Supply, Inc. v. Ernest*,⁴⁶ the Idaho Supreme Court quoted section 8.04 of the Restatement of Agency (Third):

Throughout the duration of an agency relationship, an agent has a duty to refrain from competing with the principal and from taking action on behalf of or otherwise assisting the principal's competitors. During that

³⁸ *Hickory Specialties, Inc. v. Forest Flavors Int'l, Inc.*, 26 F. Supp. 2d 1029 (M.D. Tenn. 1998).

³⁹ *Id.* at 1033.

⁴⁰ *Id.*

⁴¹ *Id.* at 1034.

⁴² *N. Atl. Instruments, Inc. v. Haber*, 188 F.3d 38, 47–48 (2d Cir. 1999).

⁴³ *Bond v. PolyCycle*, 732 A.2d 970 (Md. Ct. Spec. App. 1999).

⁴⁴ *Id.* at 976.

⁴⁵ *Id.* at 977 (citations omitted).

⁴⁶ *Wesco Autobody Supply, Inc. v. Ernest*, 243 P.3d 1069 (Idaho 2010).

time, an agent may take action, not otherwise wrongful, to prepare for competition following termination of the agency relationship.⁴⁷

The court held that employees have fiduciary obligations to their employers.⁴⁸

Elsewhere, however, not every employment relationship gives rise to fiduciary duties. In *Foley Industries, Inc. v. Nelson*,⁴⁹ the district court characterized Missouri law this way:

Generally, an employer-employee relationship, without more, is insufficient to cause a confidential relationship to exist as to knowledge naturally acquired during employment. A confidential relationship between employer and employee giving rise to fiduciary duties exists if (1) there is an express understanding that the employee is receiving confidential information, or (2) the employee acquired the information in such a way that he must have known of its confidential nature.⁵⁰

It found that the employee expressly agreed that she would receive and protect her employer's confidential information.⁵¹

In *Broad-Ocean Technologies, LLC v. Lei*,⁵² the district court rejected the claim that the defendant had owed a fiduciary duty to respect trade secrets. The court held that the employer-employee relationship does not ordinarily give rise to fiduciary duties, even when the employee signs a confidentiality agreement.⁵³ Rather,

fiduciary relationships arise from influence — that is, by the exchange of confidence for superiority, judgment, or advice Under Michigan law, mid-level employees generally do not owe fiduciary duties to their employers unless their employer places them in a position where they are responsible for strategic plans or operations, or where they are serving as their employer's agent.⁵⁴

As a senior software engineer, the defendant did not qualify.⁵⁵

⁴⁷ *Id.* at 1080 (quoting RESTATEMENT (THIRD) OF AGENCY § 8.04 (AM. L. INST. 2006)).

⁴⁸ *Id.* at 1080–81.

⁴⁹ *Foley Indus., Inc. v. Nelson*, 619 F. Supp. 3d 920 (W.D. Mo. 2022).

⁵⁰ *Id.* at 925 (citations omitted).

⁵¹ *Id.* at 925–26.

⁵² *Broad-Ocean Techs., LLC v. Lei*, 649 F. Supp.3d 584 (E.D. Mich. 2023).

⁵³ *Id.* at 597.

⁵⁴ *Id.* (citations omitted).

⁵⁵ *Id.*

The court in *Lei* also found that any fiduciary duty claims would be preempted by the Michigan Uniform Trade Secrets Act, which is modeled after the Uniform Trade Secrets Act (“UTSA”).⁵⁶

Preemption of fiduciary duty claims by the UTSA is likely elsewhere. In *Knox Trailers, Inc. v. Maples*,⁵⁷ the district court held that employees had violated their fiduciary duty to their employer when they sought to hire employees to work for a competitor or when they solicited customers for their competing business. It held that fiduciary duty claims relating to misappropriation of trade secrets were preempted, however, by the Tennessee UTSA.⁵⁸

D. Sample Inventions Assignment Agreement

The following sample agreement obligates employees to assign patent rights to their employer. It covers only those inventions related to employment with the employing enterprise. It could be altered to cover all inventions made during the time of employment, whether related to it or not.

The agreement also has supporting language regarding licensing, invention disclosure, and cooperation with patent applications. It permits the parties expressly to exclude inventions by listing them in an appendix. Paragraph 5 cancels the assignment and causes ownership of the invention to revert to the employee if the employer does not diligently seek to patent and commercialize the patent. The language does not include provisions relating to copyright assignment, licensing, or trade secret protection. Such provisions may be desirable and can be added.

Importantly, the language uses the word *promise* when that is the intent, not *will* or *shall*, which might be interpreted simply as statements of fact and not promissory.

EMPLOYEE INVENTIONS ASSIGNMENT AGREEMENT

THIS AGREEMENT is made by and between Boxer Properties LLC. (the “Company”) and Name (the “Employee”), (together referred to as “Parties,” or individually as “Party”). In consideration of the employment of the Employee and the salary and other remuneration and benefits paid by the Company to the Employee while Employee is employed by the Company, and other good and valuable consideration, the receipt and sufficiency of which are hereby

⁵⁶ *Id.* at 598. The UTSA is a model law that proposes the protections afforded to trade secrets. Most states have enacted the Uniform Trade Secrets Act in their state. *Trade Secrets Act*, The National Conference on Uniform State Laws, <https://www.uniformlaws.org/committees/community-home?CommunityKey=3a2538fb-e030-4e2d-a9e2-90373dc05792> [https://perma.cc/LY93-6WYU].

⁵⁷ *Knox Trailers, Inc. v. Maples*, 581 F. Supp. 3d 1000 (E.D. Tenn. 2022).

⁵⁸ *Id.* at 1014–15.

acknowledged by the parties, and effective as of the date hereof, Employee hereby agrees:

1. Inventions. Employee promises to assign and does hereby assign all Inventions conceived or first reduced to practice by Employee as part of, or related to, Employee's employment by the Company, and all patent rights in and to such Subject Inventions to the property of the Company. Employee hereby irrevocably assigns and agrees to assign to the Company or Company's designee, without further consideration, all of Employee's entire right, title, and interest in and to all such Inventions, other than the inventions expressly listed in the Appendix, including, without limitation, all rights to obtain, register, perfect, and enforce patents, and other intellectual property protection for the Inventions, regardless of when such application is made.

2. License. To the extent that the Company's use or exploitation of the Inventions made by Employee may require a license from Employee of any proprietary rights held by Employee, Employee hereby grants the Company a fully paid, royalty-free, non-exclusive, perpetual, worldwide license, with unlimited right to sublicense, to make, use, sell, copy, modify, and otherwise exploit such Inventions. The Company may freely transfer or assign its rights generally in the Inventions.

3. Invention Disclosure. Employee promises to disclose promptly and in writing to the Company, all Inventions which Employee has conceived, made, will make or have reduced or will reduce to practice during Employee's employment by the Company; and Employee promises to make such disclosures in a form that will allow the Company to determine if any such Inventions are covered by this agreement.

4. Cooperation in Patent Applications and Ownership Rights. Employee agrees that should the Company elect to file an application for patent protection, either in the United States, in any foreign country, or with an international patent agency on an Invention of which Employee is or was an inventor or creator, Employee promises to execute all necessary papers truthfully, including formal assignments to the Company relating to such patent applications and provide all cooperation and assistance that is reasonably required for the orderly prosecution of any such applications or assignments. Employee further promises to execute and deliver to the Company, its successors and assigns, any assignments and documents the Company requests for the purpose of establishing, evidencing, and enforcing or defending its complete,

exclusive, perpetual, and worldwide ownership of all right, title, and interest of every kind and nature, in and to any Invention covered by this agreement, and Employee constitutes and appoints the Company as his or her agent and attorney-in-fact to execute and deliver any such assignments or documents, including applications for patent or copyright protection, this power and agency being coupled with an interest and being irrevocable. Employee's obligations under this Section 4 continue during the term of the Employee's employment with the Company and will survive the termination or expiration for any reason or no reason of the Employee's employment with the Company.

5. If the employer does not diligently seek to obtain a patent on a Covered Invention, and having obtained a patent, does not diligently seek to exploit and commercialize the patent, ownership of the patent reverts, at the option of the Employee to the Employee.

6. Definitions. Unless otherwise expressly provided herein or unless the context otherwise requires, terms are defined as follows:

"Excluded Invention" means any Invention listed on Exhibit "A" of this Agreement that existed prior to Employee's employment by the Company and would be an Invention covered by this agreement if such Invention was or is made during Employee's employment by the Company.

"Invention" means any idea, discovery, whether or not patentable, including, but not limited to, any useful process, method, formula, technique, machine, manufacture, composition of matter, algorithm or computer program, as well as improvements thereto, which is new or which Employee has a reasonable basis to believe may be new.

"Covered Invention" means any Invention which is conceived by the Employee alone or in a joint effort with others and which indirectly or directly results from the Employee's employment by the Company.

Executed this ___ day of __, __.
(day) (month) (year)

II. WRONGS

A variety of circumstances may arise in the employment relationship involving patents that cause the employer or employee to believe that the other has wronged him:

- The employee gets a patent on his own and refuses to assign it to the employer.

- The employee takes employer trade secrets when he terminates his employment, gets a patent on them in his own name, and assigns the patent to a new employer.
- The employer takes the employee's inventive work and obtains a patent without naming the employee as a sole or co-inventor.
- The employee obtains a patent and assigns it to the employer, and the employer fails to pay promised royalties or other compensation.
- The assignee of a patent fails to pay the agreed compensation, triggering a condition subsequent that terminates the assignment.

A. *Use of the Other's Information*

When the employment relationship terminates, either the former employee or former employer may use information learned from the other during the relationship. The Sally McHenry and Matthew Finley hypotheticals in the introduction involve this type of wrong. When no patent exists covering the information, trade secret misappropriation may have occurred.⁵⁹ If a patent has been issued, infringement is a possibility.⁶⁰

Patents and trade secrets are like parents and offspring. Patents emerge from trade secrets, and when they become public, they extinguish the trade secrets they disclose. (Of course, human parents do not usually dispose of their offspring in this fashion.) Typically, an innovator protects his innovation as a trade secret and then, when he thinks it would be advantageous, applies for a patent on the trade-secreted innovation. The trade secret remains until the patent application is published.⁶¹ Once publication occurs, the trade secret is extinguished.⁶² Before that occurs, however, or even if it does, claims for misappropriation of trade secrets may arise in connection with patents and patent applications.⁶³

1. Misappropriation

Misappropriation is a generic term for the wrongful taking of another's property.⁶⁴ If an employee takes the employer's property wrongfully, he has misappropriated it; likewise, if the employer takes the employee's property, it has misappropriated it. The term most often is used with respect to intangible property and is a term of art in the trade secret context. It is roughly equivalent to infringement in the patent context.

⁵⁹ 18 U.S.C. § 1839(5)(B).

⁶⁰ 35 U.S.C. § 271(a).

⁶¹ *Id.* § 122(a).

⁶² *Id.* § 122(b).

⁶³ PERRITT, *supra* note 5, ch. 6, at 77.

⁶⁴ *Id.* at 3–4.

The federal Defend Trade Secrets Act (“DTSA”) defines trade secret:

(3) the term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.⁶⁵

The definition is meant to be the same as that in the UTSA.⁶⁶

The DTSA defines misappropriation the same as the definition under the UTSA:

(5) the term “misappropriation” means—

(A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(B) disclosure or use of a trade secret of another without express or implied consent by a person who—

(i) used improper means to acquire knowledge of the trade secret;

(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was—

(I) derived from or through a person who had used improper means to acquire the trade secret;

(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(iii) before a material change of the position of the person, knew or had reason to know that-

⁶⁵ 18 U.S.C. § 1839(3).

⁶⁶ See S. REP. NO. 114-220, (2016); *see also* H.R. REP. NO. 114-529, (2016).

- (I) the trade secret was a trade secret; and
- (II) knowledge of the trade secret had been acquired by accident or mistake⁶⁷

It is not hard to see how one or more of these forms of misappropriation might occur in the employment relation.

i. Misappropriation of Employer Trade Secrets

The typical trade secret misappropriation case involves a former employee who has taken trade secrets he learned on the job with his former employer and now seeks to disclose them to a new employer, to use them to apply for a patent, or to commercialize them himself.⁶⁸ Typically, an employer alleges that the information a former employee took constitutes trade secrets because it confers a competitive advantage by virtue of not being generally known and is accompanied by reasonable efforts to maintain its secrecy. It then shows that the former employee acquired the information without authority, is using it, or is disclosing it. Typical defenses are that the information does not constitute a trade secret, that what the defendants are using is different from the trade secret information, or that the defendant got the information from someplace other than the former employer.

ii. Misappropriation of Employee Trade Secrets

Most trade-secret misappropriation cases growing out of the employment relationship involve claims by the employer that an employee has misappropriated the employer's trade secrets. But the law protects an employee's trade secrets as well.⁶⁹ Lonnie Butler sued his employer, Continental Airlines, for misappropriating his trade secrets in *Butler v. Continental Airlines, Inc.*⁷⁰ Butler wrote several computer program macros that Continental used in its reservation system.⁷¹ The appellate court affirmed the dismissal on the grounds that this claim was preempted by the copyright act.⁷² It did not address the merits of Butler's trade secrets claim.⁷³ The case

⁶⁷ 18 U.S.C. § 1839(5); PERRITT, *supra* note 5, ch. 6, at 3-4 (analyzing misappropriation by employees).

⁶⁸ See generally PERRITT, *supra* note 5, ch. 6 (analyzing misappropriation in the context of the employment relationship).

⁶⁹ *Id.*

⁷⁰ *Butler v. Cont'l Airlines, Inc.*, 31 S.W.3d 642, 645 (Tex. App. 2000).

⁷¹ *Id.* at 645.

⁷² *Id.* at 652, 654.

⁷³ *Id.* at 654.

does, however, illustrate the kinds of facts that might support a trade secrets claim by an employee against his employer.

Terra Bowden sued her employer for misappropriating her idea for an assembly line in *Bowden v. DB Schenker*.⁷⁴ In dismissing her claim, the court of appeals went beyond analysis of the elements of trade secret misappropriation, to impose additional burdens on an employee claimant, and to suggest a public-policy-based privilege for employers.

[T]here was no promise or contract prohibiting Bowden's employer from using her ideas. They were an extension of the work she was already paid to do. We agree with the District Court's conclusion that public policy [militates] against imposing potential liability upon an employer who adopts its employee's recommendation to adopt an assembly line approach to meet a client's demand. To impose liability in these circumstances would disincentivize collaboration between employers and employees on questions of how to improve the workplace.⁷⁵

*Babiarz v. Bell Atlantic-Pennsylvania, Inc.*⁷⁶ involved an employee's submission of a marketing plan pursuant to his employer's solicitation of employee ideas. The employee presented his ideas in confidence and informed his employer that any patent or registration on his idea should reflect his contribution and that he should be compensated.⁷⁷ Bell put the idea into practice, but rebuffed the employee's request for recognition or compensation.⁷⁸ The employee sued for civil conspiracy, accounting, conversion, unfair competition-misappropriation of trade secret, misappropriation of invention, breach of fiduciary duty, fraud, breach of contract or quasi-contract, or both, unjust enrichment, and restitution pursuant to section 136 of the Restatement of Restitution and breach of trust.⁷⁹ Ruling on preliminary objections, the court held that the plaintiff could maintain claims for rescission and unjust enrichment, breach of fiduciary duty, fraud, civil conspiracy and an accounting, but not for misappropriation of trade secrets.⁸⁰

⁷⁴ *Bowden v. DB Schenker*, 693 F.App'x. 157, 157–58 (3d Cir. 2017) (affirming dismissal for failure to state a claim).

⁷⁵ *Id.* at 159–60 (internal quotations and citations omitted).

⁷⁶ *Babiarz v. Bell Atlantic-Pennsylvania, Inc.*, No. 1863 AUG. TERM 2000, 2001 WL 1808554 (Phila. Ct. Com. Pl. July 10, 2001).

⁷⁷ *Id.* at *1.

⁷⁸ *Id.* at *2.

⁷⁹ *Id.* at *2–*3 (summarizing allegations and claims).

⁸⁰ *Id.* at *3.

The court rejected conversion because the employee voluntarily disclosed his idea.⁸¹ It rejected the trade-secret-misappropriation claim because the employee voluntarily disclosed the information, expecting to be compensated. “Even taking as true these allegations, this court does not find that plaintiff has stated a claim for ‘misappropriation’ as to either count. Rather, plaintiff’s redress is more properly addressed by contract or quasi-contract principles.”⁸²

The court’s dismissal of trade secret misappropriation is questionable. Trade secret misappropriation claims often are maintained successfully when trade secrets are disclosed in exchange for payment, and payment is never made.⁸³

An employee would have a stronger case if he could show that he developed the trade secret on his own time, and that its development was not within the scope of his employment. If it was within the scope of his employment, an analogy to copyright’s work-made-for-hire doctrine would vest ownership in the employer, from the outset.⁸⁴

The employee would also have to establish the usual requisites of trade secret: that the information conferred a competitive advantage by virtue of not being generally known, accompanied by reasonable efforts to maintain security.⁸⁵

The competitive advantage would have to be that of the employee in the relevant labor market, not that of the employer. Reasonable efforts to maintain secrecy would mean, ordinarily, that the employee insisted on a non-disclosure agreement before revealing the trade secret to the employer.

These elements might be satisfied by an employee who tinkers at home with technology collateral to what he was employed to deal with, or with respect to which his employer had disclaimed interest. He achieves good results and presents them to his employer under a non-disclosure agreement in an effort to get extra compensation or to get the employer’s help in seeking a patent. The employer runs with the information and applies for a patent in its own name, omitting the inventive employee. The employee has a claim for trade secret misappropriation.

In the typical situation, of course, an employee’s innovations would be arrived at within the scope of employment, within any barrier of secrecy between employer and employee, and probably within the terms of an agreement to assign inventions to the employer.

⁸¹ *Id.* at *7.

⁸² *Id.* at *10.

⁸³ PERRITT, *supra* note 5, ch. 6.

⁸⁴ *Id.* ch. 6, at 17.

⁸⁵ Kinghorn Med. LLC v. Nat’l DME LLC, No. 8:23-CV-1308-CEH-AAS, 2024 WL 947480, at *4 (M.D. Fla. Jan. 30, 2024), report and recommendation adopted, No. 8:23-CV-1308-CEH-AAS, 2024 WL 945355 (M.D. Fla. Mar. 5, 2024).

iii. Earlier Patents and Trade Secret Misappropriation

Often, an employer will obtain a patent or apply for one on information that an employee takes after terminating employment. If the former employer claims that the former employee is misappropriating trade secrets in that information, a published patent or published patent application will defeat the claim because it extinguishes the trade secret. On the other hand, if a patent application is pending but not yet published, trade secret protection continues to exist with respect to information contained in the application.

In *Van Products Co. v. General Welding and Fabricating Co.*,⁸⁶ the court held that an earlier patent assigned to the employer meant that the information covered by the patent was no longer a trade secret and could not support a claim against a former employee who took the information to a competitor.⁸⁷

In *Atlas Bradford Co. v. Tuboscope Co.*,⁸⁸ the Texas intermediate court held that a former employee who learned of a trade secret before his former employer obtained a patent on an invention involving the trade secret could be enjoined from disclosing the trade secret even though the patent made the information public.⁸⁹

In *Bickley v. Frutchey Bean Co.*,⁹⁰ the district court granted judgment to the defendants on a claim for misappropriation of trade secrets in a bean sorting machine. The individual defendant had been an employee of the plaintiff for thirteen years before he went to work for the corporate defendant.⁹¹ Patents owned by the plaintiff covered the machine at issue, but the plaintiff did not claim patent infringement; only trade secret misappropriation.⁹² The court found that the alleged trade secrets constituted information the defendants derived from public information, including the plaintiff's patents, and therefore did not constitute trade secrets.⁹³ Because the defendants obtained the information through the patents, which had been placed it in the public domain, they could not be liable for trade secret misappropriation.⁹⁴

⁸⁶ *Van Prods. Co. v. Gen. Welding & Fabricating Co.*, 213 A.2d 769 (Pa. 1965).

⁸⁷ *Id.* at 780.

⁸⁸ *Atlas Bradford Co. v. Tuboscope Co.*, 378 S.W.2d 147 (Tex. Ct. Civ. App. 1964).

⁸⁹ *Id.* at 149.

⁹⁰ *Bickley v. Frutchey Bean Co.*, 173 F. Supp. 516 (E.D. Mich. 1959).

⁹¹ *Id.* at 517.

⁹² *Id.* at 518.

⁹³ *Id.* at 524.

⁹⁴ *Id.*

2. Infringement

After either party obtains a patent, the most obvious type of wrong is patent infringement. Section 271 of the patent statute provides:

- (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.
- (b) Whoever actively induces infringement of a patent shall be liable as an infringer.⁹⁵

A former employee may engage in conduct that infringes the former employer's patent. The former employer may engage in conduct that infringes the former employee's patent. Either situation obviously depends on the plaintiff's having a patent and the defendant's engaging in infringing conduct. Often, either or both of those prerequisites are absent, and the wronged party must consider other legal theories and remedies.

In *Young Dental Mfg. Co. v. Q3 Special Products, Inc.*,⁹⁶ the plaintiff suffered summary judgment in its suits for patent infringement against a former employee:

Plaintiff fails to present any evidence indicating that defendant Carron directly infringed the '547 Patent. It fails to dispute in any manner Carron's deposition testimony that he had no involvement with the design of Q3's DPA, did not make any drawings for the design of the accused angle, did not participate in the development of the manufacturing process for the accused angle, did not participate in the installation or implementation of computer-aided design drawings for the Q3 angle, did not play any role in testing the Q3 angle, and did not contribute to the design and cutting of mold inserts or mold cups for the Q3 DPA. It is undisputed that he did not participate in any sales of the Q3 DPA.

Plaintiff further fails to offer a shred of evidence that Carron is liable for contributory infringement. It offers nothing to contradict Carron's sworn declaration that he has never sold any components of the Q3 DPA.⁹⁷

⁹⁵ 35 U.S.C. § 271.

⁹⁶ *Young Dental Mfg. Co. v. Q3 Special Prods.*, 891 F. Supp. 1345 (E.D. Mo. 1995).

⁹⁷ *Id.* at 1347-48 (citations omitted).

The plaintiff's claim of induced infringement was unsuccessful as well:

Plaintiff avers that Carron was “instrumental” in the selection of Perry Machine & Die as the manufacturer of the Q3 proph cup molds, and that his crucial role is demonstrated by the fact he provided Perry's employees with plaintiff's CAD/CAM linking software and trained Perry's employees in the use of this software. Plaintiff further points to the fact that Carron purchased, on Kraenzle and Q3's behalf, certain materials used in the manufacture of proph mold cups.

An inducement of infringement requires proof of two elements: 1) an act by the alleged defendant knowingly intended to induce another to infringe; and 2) the actual infringement by the third party. Thus, there is no liability for inducement of infringement unless an actual infringement in violation of section 271(a) occurs. Furthermore, the accused infringer must be shown to have had actual knowledge of the patent and the actual intent to induce the infringement.

* * *

Plaintiff offers nothing but accusations and broad general allegations that Carron induced both Q3 and Perry Machine to infringe the '547 Patent. It offers no evidence, by affidavit or otherwise, to controvert the fact that whatever minimal activity Carron engaged in was solely related to the proph cup molds and that such acts occurred prior to his actual knowledge of the issuance of the '547 Patent. Plaintiff offers no evidence which would persuade a reasonable jury that Carron knew of the '547 Patent and actively participated in acts designed to induce infringement of the patent. Summary judgment, as to Count I, will be granted to defendant Carron.⁹⁸

The court also dismissed trade secret misappropriation claims, finding insufficient evidence of either of trade secret status or use sufficient to constitute misappropriation.⁹⁹

In *L-3 Communications Corp. v. Jaxon Eng'g & Maint., Inc.*,¹⁰⁰ however, L-3 Communications survived a motion to dismiss an infringement claim against a former employee. While the allegations of patent infringement were barebones, the court found that they were sufficient to satisfy federal notice pleading requirements:

To plead a claim for patent infringement, a plaintiff must allege facts showing that he owns the patent in question; that the defendant has been

⁹⁸ *Id.* at 1348–49.

⁹⁹ *Id.* at 1349–52.

¹⁰⁰ *L-3 Commc'ns Corp. v. Jaxon Eng'g & Maint., Inc.*, 863 F. Supp.2d 1066, 1080 (D. Colo. 2012).

infringing the patent by making, selling, and using the device embodying the patent; and that the plaintiff has given the defendant notice of its infringement. The plaintiff is not required to specifically recite each element of the claims of the asserted patent that are allegedly infringed. All that is necessary is to plead facts sufficient to place the alleged infringer on notice as to what he must defend.

Here, the Court finds that L3 has sufficiently identified the patents allegedly infringed and has specifically identified specific devices made or used by Jaxon that result in such infringement (the “Automated EM Barrier Monitoring Systems Equipment” and “short pulse and intermediate pulse transient pulse generators for Pulse Current Injection”). Certainly, L3’s Amended Complaint is no model of specificity and affords little more notice beyond simply identifying the alleged infringing devices, but the Court finds that this is sufficient under the circumstances to put the Defendants on notice.¹⁰¹

Similarly, the court denied a motion to dismiss trade secret misappropriation claims, finding that the trade secrets were identified with sufficient specificity.¹⁰²

An employee inventor who leaves employment and obtains a patent may have a claim for patent infringement against her former employer, if the former employer practices the employee’s invention without authority.¹⁰³ A former employee suing his former employer for infringement of his patents is likely to be confronted with an argument that he assigned his patent right to the former employer and thus lacks standing.¹⁰⁴ Also, the former employer has a shop right to practice the invention the former employer paid for it.¹⁰⁵

3. Applying for a Patent on Employer-funded Inventions

Employees may apply for patents on employer-funded inventions. When they do so, they may breach obligations to assign the invention to their employers, or they may misappropriate trade secrets, or both. An employer cannot apply for a patent on an employee invention unless it can submit an assignment to the Patent Office along with its application.¹⁰⁶

¹⁰¹ *Id.* at 1080 (quotations and citations omitted).

¹⁰² *Id.* at 1080–81; *see also* PERRITT, *supra* note 5, ch. 6, at 24 (analyzing requirement to plead trade secrets with specificity).

¹⁰³ *See* Jamesbury Corp. v. Worcester Valve Co., 318 F. Supp. 1, 2 (D. Mass. 1970).

¹⁰⁴ *Cf.* Imatec, Ltd. v. Apple Computer, Inc., 81 F. Supp.2d 471, 480–81 (S.D. N.Y. 2000) (citations omitted) (assignment of rights in a patent or rights in a future invention divests an inventor of standing to sue for infringement; not a former employee as plaintiff).

¹⁰⁵ *See infra* Section II.D.2 (discussing shop right doctrine).

¹⁰⁶ 37 CFR § 1.46(b) (Application for patent by an assignee, obligated assignee, or a person who otherwise shows sufficient proprietary interest in the matter).

In *Van Products Co. v. General Welding and Fabricating Co.*,¹⁰⁷ the court rejected a trade secret misappropriation claim against a former employee who had obtained a patent on a compound similar to one covered by his former employer's trade secrets, which was never disclosed to the defendant.¹⁰⁸ It was the former employee's own industriousness that had come up with the newly patented invention, the court said.¹⁰⁹

In *Parus Holdings, Inc. v. Banner & Witcoff, Ltd.*,¹¹⁰ the district court denied a motion to dismiss trade secret misappropriation claims against a law firm and one Robert Swartz who allegedly used confidential information from the plaintiff's patent application to enable Swartz to apply for his own patent.¹¹¹ The plaintiff had employed Swartz and Swartz had hired the law firm while he worked for the plaintiff to file a provisional patent application.¹¹² The application named Swartz and another of plaintiff's employees as the inventors without reference to any assignment of rights to the plaintiff.¹¹³ Indeed, no assignment or contract to assign existed; in fact, the other employee, and not Swartz, was the sole inventor.¹¹⁴ The plaintiff retained new counsel and the defendant law firm continued to advise Swartz as an individual.¹¹⁵ Swartz subsequently obtained patents, based in substantial part on the patent application files of the plaintiff that the law firm gave Swartz in contravention to instructions by the plaintiff.¹¹⁶

Plaintiff sued for a declaration that it was the rightful owner of the patents, to establish priority of invention, and to recover damages for misappropriation of trade secrets.¹¹⁷ Almost all of the court's analysis was devoted to the breach of duty by the law firm, but it held that allegations of disclosure to Swartz and Swartz's use of the information to harm the plaintiff were enough to survive a motion to dismiss.¹¹⁸

In *Julius Hyman & Co. v. Velsicol Corp.*,¹¹⁹ the Colorado Supreme Court affirmed in material part a judgment for the plaintiffs on a trade secret misappropriation case.¹²⁰ The individual defendants had been employed by the plaintiff in its research labs.¹²¹ They were under contractual obligations

¹⁰⁷ *Van Prods. Co. v. Gen. Welding & Fabricating Co.*, 213 A.2d 769 (Pa. 1965).

¹⁰⁸ *Id.* at 774.

¹⁰⁹ *Id.* at 780.

¹¹⁰ *Parus Holdings, Inc. v. Banner & Witcoff, Ltd.*, 585 F. Supp.2d 995 (N.D. Ill. 2008).

¹¹¹ *Id.* at 996–1006.

¹¹² *Id.* at 997.

¹¹³ *Id.*

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.* at 997–98.

¹¹⁷ *Id.* at 998.

¹¹⁸ *Id.* at 1105.

¹¹⁹ *Julius Hyman & Co. v. Velsicol Corp.*, 233 P.2d 977 (Colo. 1951).

¹²⁰ *Id.* at 1018.

¹²¹ *Id.* at 981.

to assign any discovery or invention made while the plaintiff employed them, however, when they obtained patents, they assigned some of them but refused to assign others.¹²²

Parallel litigation in Illinois had resulted in an injunction compelling the defendants to assign the patents to the plaintiff and prohibiting them from practicing the patents.¹²³ The lower Colorado court similarly enjoyed practice of the patents.¹²⁴

The Supreme Court held that inclusion of the trade secrets in patent applications did not compromise the trade secrets.¹²⁵ It explained why equity supported an injunction against practicing the patent.¹²⁶ The Court affirmed an award of profits earned from use of the trade secrets.¹²⁷ It also affirmed the injunction.¹²⁸

The Supreme Court's opinion is an extreme example of needless prolixity and repetitiveness.

B. Competition

Competing with one's employer violates the duty of loyalty.¹²⁹ Examples of violations include setting up a competing business or working for a competitor during employment. Engaging in either of these examples after terminating employment may also be a violation.

1. Going to Work for a Competitor

The duty of loyalty to one's employer is strongest during employment; as a duty implied by the employment relationship, it may not exist at all after one terminates employment.¹³⁰ So if a current employee takes a side job with a competitor or sets up a competing business, that is almost certainly a breach

¹²² *Id.*

¹²³ *Id.* at 988 (describing Illinois patent litigation).

¹²⁴ *Id.* at 993.

¹²⁵ *Id.* at 998.

¹²⁶ *Id.* at 1005.

¹²⁷ *Id.* at 1010.

¹²⁸ *Id.* at 1018.

¹²⁹ See *supra* Section I.B (analyzing duty of loyalty).

¹³⁰ STEPHEN M. BYARS & KURT STANBERRY, BUSINESS ETHICS (Robert Farley & Ruth Tallman eds., 2018) (ebook); Dana Hooker, *I Thought That Was Implied? How Written Employment Agreements Can Protect Your Business*, DLA PIPER (June 14, 2021), <https://www.dlapiper.com/en/insights/publications/2021/06/how-written-employment-agreements-can-protect-your-business> [https://perma.cc/2R4K-GXX6]; *The Duty of Loyalty*, BIRD & BIRD (Oct. 1, 2018), <https://www.twobirds.com/en/insights/2018/finland/the-duty-of-loyalty> [https://perma.cc/N62Y-THNR].

of the duty of loyalty, unless the side job or the other business do not compete with the employer.¹³¹

The imposition of a duty of loyalty after employment is terminated has skimpy authority. The law does not imply any post-employment duty not to compete, and so any such obligation must arise from an express covenant. Such covenants are increasingly in disfavor. The Federal Trade Commission issued a final rule in May 2024 that would prohibit most covenants not to compete, but a federal district court enjoined its enforcement¹³² California,¹³³ Colorado,¹³⁴ Oklahoma,¹³⁵ North Dakota,¹³⁶ and Minnesota¹³⁷ broadly prohibit covenants not to compete. On December 22, 2023, New York Governor Hochul vetoed a bill to prohibit all new non-competition agreements.¹³⁸ She and the legislature could not agree on an income limit above which the measure would not apply.¹³⁹ A revision is expected to be passed in 2024.¹⁴⁰

On the other hand, agreements to protect trade secrets after termination of employment are generally enforced, and it is that type of agreement that is most likely to be interesting in the patent context.

¹³¹ *Moonlighting or Two-Timing? How Should Employers Deal with Side-Hustles?*, BRYAN CAVE LEIGHTON PAISNER LLP (Jan. 31, 2023), <https://www.bclplaw.com/en-US/events-insights-news/moonlighting-or-two-timing-how-should-employers-deal-with-side-hustles.html> [<https://perma.cc/6ESY-SL3P>].

¹³² FTC Non-Compete Clause Rule, 88 Fed. Reg. 3482 (Jan. 19, 2023) (adding new Subchapter J to 16 C.F.R. ch. 1, §§ 910.1-910.5) 89 Fed. Reg. 38342 (May 7, 2024) (final rule); *Ryan, LLC v. Federal Trade Commission*, Civil Action No. 3:24-CV-00986-E, 2024 WL 3879954 (N.D. Tex. Aug. 20, 2024) (issuing nationwide injunction against enforcement of rule).

¹³³ CAL. BUS. & PROF. CODE §§ 16600–16600.5 (2023). Non-compete clauses incident to the sale of a business, *id.* § 16601, or the dissolution of or disassociation from a partnership, *id.* § 16602, are permitted. Trade secrets are not expressly mentioned. In *Ret. Grp. v. Galante*, 98 Cal. Rptr. 3d 585, 593 (Cal. Ct. App. 2009), the California intermediate court held that misappropriation of trade secrets is enjoined notwithstanding section 16600. “[T]he conduct is enjoined not because it falls within a judicially-created ‘exception’ to section 16600’s ban on contractual nonsolicitation clauses, but is instead enjoined because it is wrongful independent of any contractual undertaking.” *Id.*

¹³⁴ COLO. REV. STAT. § 8-2-113 (2023). The statute exempts contracts for the sale of a business, *id.* § 8-2-113(2)(a), and contracts for the protection of trade secrets, *id.* § 8-2-113(2)(b).

¹³⁵ OKLA. STAT. tit. 15, § 219A (2022) (prohibiting solicitation of established customers of former employer).

¹³⁶ N.D. CENT. CODE § 9-08-06 (2023) (exempting restrictions incident to sale of business or dissolution of partnership).

¹³⁷ MINN. STAT. § 181.988 (2023) (excluding non-disclosure or other agreements to protect trade secrets and agreements incident to sale of business). The statute covers independent contractors as well as employees. *Id.* § 181.988(c).

¹³⁸ Tal Marnin, *UPDATE: New York State Set to Prohibit Non-Compete Agreements [VETOED]*, WHITE & CASE LLP (Dec. 26, 2023), <https://www.whitecase.com/insight-alert/new-york-state-set-prohibit-non-compete-agreements> [<https://perma.cc/HL6A-4GV7>].

¹³⁹ *Id.*

¹⁴⁰ Clifford R. Atlas et al., *A Step Too Far? Governor Hochul Vetoes New York Non-Compete Ban*, JACKSON LEWIS P.C. (Dec. 28, 2023), <https://www.jacksonlewis.com/insights/step-too-far-governor-hochul-vetoes-new-york-non-compete-ban> [<https://perma.cc/44HU-8QDE>].

2. Setting Up a Competing Business

Setting up a competing business after termination of employment is subject to the same considerations as going to work for a competitor.¹⁴¹ The law is reluctant to interfere with the former employee's freedom in the labor market, but willing to protect former employer trade secrets.

*Omega Optical, Inc. v. Chroma Technology Corp.*¹⁴² involved a lawsuit by the former employer of a group of employees who defected and started a competing enterprise. The plaintiff claimed that because the defendants acquired substantial amounts of information that the trial court found was protectable as trade secrets, the plaintiff was entitled to judgment as a matter of law, despite trial court findings that the plaintiff failed to take reasonable steps to preserve secrecy.¹⁴³ The court accepted the proposition that “[e]mployees, whether current or former, have a duty not to use or disclose confidential information imparted to them by their employer.”¹⁴⁴ The duty, however, extends only to information that the former employee knew or had reason to know was confidential, and no explicit notice to the employee is necessarily required.¹⁴⁵ The Vermont Supreme Court found that because the plaintiff had failed to take measures to protect the information, the circumstances under which the former employees acquired the information failed to indicate to them that the information was confidential.¹⁴⁶ “Therefore, the defendants owed no duty of confidentiality to Omega, and their use of the valuable information in their new venture did not constitute misappropriation of that information.”¹⁴⁷

C. Nonjoinder and Misjoinder

Frequently, an employee believes that he invented something and then that his employer left him off the application for a patent. This is the dispute that the Tim Bainbridge hypothetical frames in the introduction.¹⁴⁸

Leaving an inventor or coinventor off of a patent is called *nonjoinder*.¹⁴⁹ Putting someone on a patent as an inventor who was not a true inventor is called *misjoinder*.¹⁵⁰ Either nonjoinder or misjoinder invalidates a patent.¹⁵¹

¹⁴¹ See *infra* Section II.B.

¹⁴² *Omega Optical, Inc. v. Chroma Tech. Corp.*, 800 A.2d 1064, 1065–66 (Vt. 2002).

¹⁴³ *Id.* at 1066.

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ *Id.* at 1067.

¹⁴⁷ *Id.*

¹⁴⁸ See *supra* INTRODUCTION.

¹⁴⁹ *Patent Inventorship*, SIERRA IP LAW, PC, <https://sierraiplaw.com/patent-inventorship/> [https://perma.cc/U3ZF-QSM3].

¹⁵⁰ *Id.*

¹⁵¹ *Id.*

Either can be corrected during patent prosecution by amending the application disclosure statement or, later in the process, by filing a section 116 petition.¹⁵² After issuance, it can be corrected in a reissuance, re-examination, post-grant review, or—although not likely—in a re-examination proceeding.¹⁵³

After a patent is issued, inventorship can be corrected by a United States district court under section 256.¹⁵⁴

D. Failure to Assign

A frequent factual situation giving rise to disputes involves a former employee who applies for a patent on employer-funded inventions and fails to assign the patent application or resulting patent to the employer in contravention of an agreement to do so. Employers are without effective means to block this possibility, because patents are issued in the name of individual inventors. While assignees and beneficiaries under agreements to assign have standing to seek patents on their own,¹⁵⁵ discovering what an employee has done may come late, maybe only after a former employee has obtained a patent.

1. Breach of Contract to Assign

The federal court approved assignment of patents in improvements, while disfavoring “mortgage[s] on a man’s brain” in *Aspinwall v. Gill*.¹⁵⁶

That such assignments of future improvements upon a machine, in connection with the assignment of a patent for such machine, are valid, is settled, I think, by the case of *Littlefield v. Perry*, 21 Wall. 226. A naked assignment or agreement to assign, in gross, a man’s future labors as an author or inventor,— in other words, a mortgage on a man’s brain, to bind all its future products,— does not address itself favorably to our consideration But where a man purchases a particular machine secured by a patent, and open to an indefinite line of improvements, it is often of great consequence to him that he should have the benefit of any future improvements that may be made to it. Without that, the whole value of the thing may be taken away from him

¹⁵² 37 C.F.R. § 1.121 (2022); United States Patent and Trademark Office, MANUAL OF PATENT EXAMINING PROCEDURE § 1481.02 (8th ed., rev. Sept. 2008) [hereinafter MPEP].

¹⁵³ MPEP, *supra* note 152, § 1400.01.

¹⁵⁴ See *infra* Section III.E.2.

¹⁵⁵ 35 U.S.C. § 261.

¹⁵⁶ *Aspinwall v. Gill*, 32 F. 697, 700 (C.C.D.N.J. 1887).

the next day. A better machine might be made by the inventor, and sold to another party, which would make the machine acquired by the first purchaser entirely useless.¹⁵⁷

*St. John's Univ., New York v. Bolton*¹⁵⁸ is a good example of a similar agreement and a breach by employees. The district court denied a motion to dismiss a breach of contract claim filed by the university against a former professor and his graduate student for failure to assign inventions on which the defendants subsequently obtained patents.¹⁵⁹ The defendants' research at the university produced four patents, which listed the two individual defendants as co-inventors.¹⁶⁰ They licensed the patents to a corporation they formed and were the sole owners.¹⁶¹ They concealed all this from St. John's.¹⁶²

The two individual defendants were parties to an agreement that obligated them to assign to St. John's:

all patentable inventions, discoveries, processes, uses, products, or combinations resulting, in whole or in part, from any of (a) the use of the laboratories or other facilities of St. John's, (b) services rendered by faculty to St. John's, (c) research conducted by graduate students or doctoral candidates under the direction of St. John's faculty, or (d) any related or predicate research¹⁶³

The court held that St. John's had adequately pleaded breach of contract, and that the defendant's factual defenses were not credible:

- "St. John's has pleaded the existence of Bolton's and Spireas's contractual duty to assign patentable inventions derived 'in whole or in part' from research conducted at St. John's under the Patent Policy and the other Agreements."¹⁶⁴
- "St. John's has also pleaded that it performed its obligations under the Agreements by employing Bolton and Spireas, enrolling Spireas as a graduate student, and giving both Bolton and Spireas the benefit of its resources."¹⁶⁵

¹⁵⁷ *Id.*

¹⁵⁸ *St. John's Univ., N.Y. v. Bolton*, 757 F. Supp. 2d 144, 158–59 (S.D.N.Y. 2010).

¹⁵⁹ *Id.* at 165.

¹⁶⁰ *Id.* at 154.

¹⁶¹ *Id.* at 177.

¹⁶² *Id.* at 156.

¹⁶³ *Id.* at 155 (quoting Compl. ¶¶ 14, 46, 51, 75.).

¹⁶⁴ *Id.* at 158.

¹⁶⁵ *Id.*

- “St. John’s has further pleaded that the Liquisolid Patents are based on inventions derived ‘in whole or in part’ from research performed at St. John’s and subject to the Agreements, and that Bolton and Spireas have not assigned the Liquisolid Patents to St. John’s.”¹⁶⁶
- “Finally, St. John’s has pleaded that it has been damaged because it has not received the Liquisolid Patents and the accompanying royalty revenues from licensing the Liquisolid Patents.”¹⁶⁷
- “Under New York law, St. John’s has sufficiently alleged that Bolton and Spireas breached their contractual obligations to assign patentable inventions to it.”¹⁶⁸

The defendants also signed a revenue-sharing agreement with St. John’s:

The Agreement restated Bolton’s obligation under the Patent Policy to assign to St. John’s all patentable inventions “resulting from research and research related services performed by Bolton at [St. John’s]. However, the Agreement contained an additional clause in which the parties agreed that Bolton and St. John’s would split the revenues “derived from the sale or licensing of such inventions, patent applications and patents . . . with (a) 30% for St. John’s University and (b) 70% for Dr. Bolton and any student or other person whom Dr. Bolton determines has an interest herein.” The Bolton Research Agreement further obligated Bolton to “endeavor with reasonable diligence to secure the necessary patents and use his efforts to introduce such inventions, patent applications, and patents into public use and secure a reasonable revenue therefrom by issuing licenses thereunder or otherwise.”¹⁶⁹

The court found that the defendants had breached that agreement:

St. John’s has pleaded that it performed its obligations under the Bolton Research Agreement by employing Bolton and giving Bolton the benefit of its resources. St. John’s has further pleaded: that the Liquisolid Patents are based on inventions derived in whole or in part from Bolton’s research related services at St. John’s; that Bolton has obtained royalties from licensing the Liquisolid Patents; and that Bolton has not shared any of those licensing revenues with St. John’s. Finally, St. John’s has pleaded that it has been damaged because it has

¹⁶⁶ *Id.*

¹⁶⁷ *Id.* at 158–59.

¹⁶⁸ *Id.* at 159.

¹⁶⁹ *Id.* at 155 (alteration in original) (citations omitted) (quoting language of agreement).

not received its share of royalty revenues. Under New York law, St. John's has sufficiently alleged that Bolton breached his contractual obligation under the Bolton Research Agreement to share patent-licensing royalties with it.¹⁷⁰

The court denied the motions to dismiss that claim, as well.¹⁷¹

*Chou v. Univ. of Chicago*¹⁷² involved a suit by a former employee for breach of duties associated with an invention assignment agreement. Joany Chou was a research assistant to Bernard Roizman. Roizman obtained patents in his own name, rejecting Chou's argument that she should be listed as a co-inventor.¹⁷³ Chou sued for correction of inventorship, declaratory judgment of inventorship, fraud, breach of fiduciary duty, unjust enrichment, breach of express contract, and breach of implied contract.¹⁷⁴ The district court dismissed most of the claims because Chou had surrendered all of her claims under the university's invention assignment agreement, among other reasons, and Chou appealed.¹⁷⁵

The court of appeals held that Chou was obligated to assign her inventions to the university, under the administrative policies of the university, even though she signed no explicit assignment contract.¹⁷⁶ That holding, however, did not deprive her of standing under section 256 to seek correction of inventorship:

We have previously interpreted § 256 broadly as a "savings provision" to prevent patent rights from being extinguished simply because the inventors are not correctly listed. *Pannu v. Iolab Corp.*, 155 F.3d 1344, 1349, 47 USPQ2d 1657, 1662 (Fed. Cir. 1998). The same considerations apply here. Chou should have the right to assert her interest, both for her own benefit and in the public interest of assuring correct inventorship designations on patents. The interest of both inventors and the public are thus served by a broad interpretation of the statute.¹⁷⁷

Her claim to a share of revenue earned by the patent was enough for Article III standing.¹⁷⁸

¹⁷⁰ *Id.* at 160.

¹⁷¹ *Id.* at 194.

¹⁷² *Chou v. Univ. of Chicago*, 254 F.3d 1347, 1353–54 (Fed. Cir. 2001).

¹⁷³ *Id.*

¹⁷⁴ *Id.* (describing complaint).

¹⁷⁵ *Id.* at 1353–54.

¹⁷⁶ *Id.* at 1356–57.

¹⁷⁷ *Id.* at 1358.

¹⁷⁸ *Id.* at 1359.

The court also held that Chou's state-law claim for fraudulent concealment should not have been dismissed because of Chou's allegation that Roizman had concealed his patent application from her.¹⁷⁹

Similarly, the court reversed dismissal of claims for breach of fiduciary duty by Roizman, unjust enrichment against Roizman, and breach of express contract against the university but affirmed dismissal of her claim for an express contract against Roizman.¹⁸⁰ The contract claim against the university was based on an allegation that the university promised to add her as an inventor on the patent application but did not do so and its practice of rewarding inventors with 25% of the gross royalties and 25% of the stock of new companies based on their inventions.¹⁸¹

Inventions may be outside the scope of the assignment when they are made before the beginning of employment.¹⁸²

Assignment agreements may imply a duty to commercialize inventions.¹⁸³

Two concerns circumscribe breach of contract relief under frustrated invention assignment contracts. One is that public policy probably prevents enforcement of an assignment agreement that continues forever. Such agreements are said to mortgage the inventor's brain.¹⁸⁴ The other concern is that the enforceability of the assignment agreement might be challenged for lack of consideration. Such challenges sometimes work to invalidate covenants not to compete,¹⁸⁵ but the factual context of invention assignment agreements makes it virtually certain that the asset has received some kind of benefits from the employer related to the invention—tools, human assistance, payments for lab facilities, supernormal compensation, and agreements to share royalties.

2. Shop Right Doctrine

The shop right doctrine arises when “a servant, during his hours of employment, working with his master's materials and appliances, conceives

¹⁷⁹ *Id.* at 1361.

¹⁸⁰ *Id.* at 1353, 1366.

¹⁸¹ *Id.* at 1364.

¹⁸² See *Bailey v. Chattem, Inc.*, 684 F.2d 386, 391 (6th Cir. 1982) (finding for individual owner of patent whose conception was complete before employment).

¹⁸³ See *Kaloyeros v. Rsch. Found. of State Univ. of N.Y.*, 144 N.Y.S.3d 557, at *7 (N.Y. Sup. Ct. 2021); *id.* at *13–14 (finding implied contractual obligation and breach of it under assignment agreement to commercialize and market patents); *but see id.* at *33–34 (rejecting claims for breach of fiduciary duty for failure to commercialize patents).

¹⁸⁴ *Aspinwall v. Gill*, 32 Fed. 697, 700 (C.C.D.N.J. 1887).

¹⁸⁵ See *Socko v. Mid-Atlantic Sys. of CPA, Inc.*, 126 A.3d 1266, 1274–75 (Pa. 2015) (affirming summary judgment finding covenant not to compete unenforceable for lack of consideration).

and perfects an invention for which he obtains a patent, he must accord his master a non-exclusive right to practice the invention.”¹⁸⁶

The shop right doctrine is discussed in this section because it involves an involuntary assignment of patent rights and is analyzed in Section III.F.

3. Work Made for Hire

The DTSA and UTSA contain no explicit provisions on how to allocate rights in trade secrets between employers and employees.¹⁸⁷ Courts hearing controversies over allocation frequently look to the shop right doctrine or to the work made for hire doctrine from copyright law,¹⁸⁸ which says that an employer owns works created by employees within the scope of their employment unless the parties explicitly agree otherwise and that an independent contractor owns works created under the contract unless otherwise agreed.¹⁸⁹

The shop right and the work made for hire achieve similar results, although the shop right doctrine allows the employer only a non-exclusive license, while the work made for hire gives it fee simple ownership.¹⁹⁰

E. Nonpayment

Most people who are interested in patents care about them because they want money. Most individual inventors do not have the resources to crystallize their inventions, to put together successful patent applications, or to commercialize the invention after they receive a patent. Cooperative

¹⁸⁶ *McElmurry v. Ark. Power & Light Co.*, 995 F.2d 1576, 1581–82 (Fed. Cir. 1993) (discussing shop right as common law doctrine and enumerating its prerequisites and scope; finding that it applied to facts of the case); *compare* *Ultimax Cement Mfg. Corp. v. CTS Cement Mfg. Corp.*, 856 F. Supp. 2d 1136, 1143–44 (C.D. Cal. 2012) (holding that defendants had a shop right and that employee acquiescence was not necessary) *with* *Natron Corp. v. Borg Indak, Inc.*, 848 F. Supp. 2d 725, 754 (E.D. Mich. 2012) (holding no shop right existed because contract disclaimed it).

¹⁸⁷ R. Mark Halligan, *Trade Secrets: Who Owns What Is in Your Head?*, REUTERS (Apr. 25, 2022, 10:29 AM), <https://www.reuters.com/legal/legalindustry/trade-secrets-who-owns-what-is-your-head-2022-04-25/>.

¹⁸⁸ 17 U.S.C. § 101 (defining work made for hire); *Id.* § 201(b) (stating that employer is presumed author of work made for hire).

¹⁸⁹ Virginia Fournier, *Common Misconceptions about the “Work for Hire” Doctrine*, OUTSIDE GC LLC (Dec. 8, 2021), <https://www.outsidegc.com/blog/common-misconceptions-about-the-work-for-hire-doctrine> [<https://perma.cc/UB4B-ZWG5>]; *Copyright Law: The “Works Made For Hire” Doctrine*, DUNLAP BENNETT & LUDWIG PLLC, <https://www.dblawyers.com/copyright-law-the-works-made-for-hire-doctrine/> [<https://perma.cc/ERP8-N98W>].

¹⁹⁰ Benjamin C. Stasa, *Innovations at Work: Who Really Owns Employee-Created Inventions?*, BROOKS KUSHMAN P.C. (Feb. 19, 2024), <https://www.brookskushman.com/insights/innovations-at-work-who-really-owns-employee-created-inventions/> [<https://perma.cc/45WK-NRAM>]; *Works Made for Hire*, U.S. COPYRIGHT OFFICE 4 (Aug. 2024), <https://www.copyright.gov/circs/circ30.pdf> [<https://perma.cc/7C43-7345>].

ventures are almost inevitable between inventors and those with capital, such as employers. Those cooperative ventures are framed by contract and the structure of business associations. Rare is the inventor who gives up rights without being promised financial compensation. The form of compensation is limited only by limitations on the creativity of inventors, venture capitalists, and their lawyers. The agreements may provide that an inventor is entitled to receive royalties from patent licenses, a percentage of revenues from the sale of products embodying the patent, flat fees, assistance for further inventive activity, or recognition in some form.

Transfers of property often are accompanied by reversionary interests. The common law of estates in land recognized reversions, possibilities of reverter, powers of termination, and executory interests.¹⁹¹ The same concepts, though not the terminology, is applied to transfers of intangible property such as patents and trade secrets. The assignment of a patent may be accompanied by proviso that, if payments are not made as agreed by the assignee, the patent reverts to the assignor. The assignor has a future interest defined by the terms of the condition subsequent.¹⁹²

Reversion of rights also may be desirable if an assignee does not diligently commercialize a patent;¹⁹³ otherwise, an assignor has little remedy for an unnecessarily meager payment stream.

F. Wrongful Dismissal

Sometimes, employer-employee patent disputes are triggered by termination of employment. If the employment relationship was defined contractually, the contract likely addressed intellectual property rights and any patent controversies will be resolved largely in accordance with what those contractual terms say.

If the employment was at-will, patent rights nevertheless might be defined by a contract that has no effect on the at-will nature of the employment.¹⁹⁴ Three common law theories permit wrongfully dismissed employees at-will employees to recover damages for their terminations. The public policy tort allows recovery when the employee can show that her termination jeopardizes the achievement of a clearly defined public policy and the

¹⁹¹ See *El Dorado Land Co., L.P. v. City of McKinney*, 395 S.W.3d 798, 802 (Tex. 2013) (enumerating future interests); RESTATEMENT (FIRST) OF PROPERTY § 159 (AM. L. INST. 1936) (enumerating reversionary interests in land).

¹⁹² Legal Information Institute, *Condition Subsequent*, CORNELL LAW SCHOOL, https://www.law.cornell.edu/wex/condition_subsequent [<https://perma.cc/4636-TQSR>] (“A condition subsequent is an event or state of affairs that, if it occurs, will terminate one party’s obligation to the other.”).

¹⁹³ See *supra* Section I.D (paragraph 5 of the sample invention assignment does this).

¹⁹⁴ See PERRITT, *supra* note 10, ch. 1.

employer has no overriding justification.¹⁹⁵ A public policy tort claim might be fashioned from patent law, giving inventors the right to patents if the facts show an intentional employer interference with that inventor's entitlement.¹⁹⁶

Contractual limitations on the power and privilege to dismiss at-will may be implied from employer personnel policies, personal handbooks, or from a long course of dealing.¹⁹⁷ The same theories use defined implied-in-fact contracts. Limiting employee dismissal can be used to imply contractual rights regarding allocation of patent rights in trade secret rights.

The covenant of good faith and fair dealing is least commonly used in the wrongful dismissal context, but it remains theoretically available in most states.¹⁹⁸ It may be available if a former employee can show that the employer dismissed her to deprive her of benefits she had earned. Early cases allowed recovery for breach of the covenant for deprivation of earned sales commissions.¹⁹⁹ But it should be available for employees dismissed to deprive them of patent rights as in *Chou v. Univ. of Chicago*.²⁰⁰

III. REMEDIES

Parties to employer-employee patent controversies should choose legal theories and forums with regard to relief they seek. The first question a lawyer should always ask the client is, "What do you want your lawsuit to achieve?"

In most cases, the answer will be that the plaintiff wants to share in patent earnings that have been denied. This can be achieved by a successful state-court lawsuit over breach of contract for royalty payments. It can be achieved by a section 256 action for correction of inventorship.²⁰¹ If the plaintiff is added as a co-inventor, she then is entitled to a proportional share of earnings from the patent and is entitled to practice it on her own, even if her coinventors do not agree with her activities.²⁰²

¹⁹⁵ *Id.* at 17–18 (analyzing public policy tort).

¹⁹⁶ *Compare* Singhal v. Mentor Graphics Corp., No. C07-01587 JSW, 2007 WL 7143978, at *2 (N.D. Cal. Oct. 17, 2007) (rejecting public policy tort claim premised on the patent clause of the constitution; plaintiff claimed dismissal for protesting after employer failed to list him as the inventor on patent application) with *Sim Kar Lighting Fixture Co. v. Genlyte, Inc.*, 906 F. Supp. 967, 976 (D. N.J. 1995) (refusing to dismiss public policy tort claim by an employee dismissed for refusing to perjure himself in a lawsuit over inventorship).

¹⁹⁷ See PERRITT, *supra* note 10, ch. 6 (analyzing implied-in-fact contract theories).

¹⁹⁸ See *id.* (analyzing the covenant of good faith and fair dealing).

¹⁹⁹ See *id.*

²⁰⁰ *Chou v. Univ. of Chi. & Arch Dev. Corp.*, 254 F.3d 1347, 1353 (Fed. Cir. 2001); see *supra* Section II.D-1 for analysis of the *Chou* case.

²⁰¹ *Chou*, 254 F.3d at 1353.

²⁰² "In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners." 35 U.S.C. § 262.

A. Tim, Sally, and Matthew

The three individuals introduced in the Introduction's hypotheticals and their former employers may have a variety of legal remedies available to them. Tim Bainbridge may be able to obtain correction of inventorship to name him as an inventor, to recover for misappropriation of trade secrets, breach of contract, breach of fiduciary obligation, unfair competition, and obtain restitution for unjust enrichment.

Sally McHenry's former employer may be able to obtain correction of inventorship to add the names of those she collaborated with, to recover for trade secret misappropriation, unfair competition, breach of fiduciary obligation, and restitution for unjust enrichment of Sally and her new employer. The former employer also has a shop right to practice her invention.

Matthew Finley's former employer has an action for patent infringement, trade secret misappropriation, unfair competition, and breach of fiduciary obligation.

None of the hypotheticals referred to express contracts, but if their relationships included such contracts, all of the plaintiffs would have breach of contract claims.

The following subsections explore those legal theories.

B. Relationship Between Patent and Trade Secret

Any conceivable conflict between employers and employees over intellectual property will involve a mixture of patent and trade secret claims. In *Kewanee Oil Co. v. Bicron Corp.*, the Supreme Court, in deciding that trade secret law is not preempted by federal patent law, explored the relationship between the two legal regimes.²⁰³

Federal patent law has three objectives: (1) to provide incentives to encourage inventors to invent; (2) to require that what is in the public domain remain there; and (3) to require that an inventor fully disclose the design of her invention.²⁰⁴ Federal patent law preempts state trade secret law if the trade secret law conflicts with these objectives.²⁰⁵

Patent statutes offer inducements for those with trade secret protection to relinquish the trade secret protection, in exchange for the rights afforded by a patent.²⁰⁶ One can infer from these inducements congressional intent to

²⁰³ *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

²⁰⁴ *Aronson v. Quick Point Pencil Co.*, 99 S.Ct. 1096, 1099 (1979).

²⁰⁵ *Kewanee Oil Co.*, 416 U.S. at 491–92.

²⁰⁶ *Id.* at 484.

allow trade secret protection, at least to some extent. In addition, however, one must examine the objectives of patent law to determine if trade secret protection in particular contexts undermine those objectives.

Both patent law and trade secret law provide incentives to encourage inventors to invent.²⁰⁷ A patent holder receives a twenty-year right to exclude everyone from making, using, or selling her invention throughout the United States.²⁰⁸ The potentially great value of this monopoly encourages inventors to develop new inventions.²⁰⁹ A trade secret holder has the right to exclude anyone from discovering her innovation by improper means, such as by theft or spying, or by the breaking of an agreement.²¹⁰ Anyone is free, however, to discover the trade secret independently or through reverse engineering.²¹¹ Trade secret law's protections give trade secrets potentially great value, and encourage companies to include many employees in the creative process, rather than restricting the secret to a few. Trade secret law therefore follows the patent policy of encouraging innovation.

The second patent objective is to ensure that innovations that are in the public domain remain there.²¹² Because trade secrets are, by definition, secret, they are not in the public domain and therefore cannot conflict with this patent objective unless trade secret law were to prohibit appropriating innovations that are already in the public domain.

The third patent objective is that innovations should be disclosed to the public.²¹³ State trade secret law protects the secrecy of innovations. If trade secret law creates a risk that inventors will not seek patents, then trade secret law conflicts with patent law's disclosure objective and is thus preempted by patent law. Regarding non-patentable subject matter, there is no conflict.²¹⁴ An inventor could not get a patent on such subject matter anyway. There is no policy served by stimulating frivolous patent applications. The mere filing of such applications does not serve the patent disclosure objectives because the applications are confidential.

Because traditional trade secret law does not conflict with federal patent law objectives, trade secret law is not preempted by federal patent law.²¹⁵

²⁰⁷ *Id.* at 471.

²⁰⁸ 35 U.S.C. § 154(a)(2).

²⁰⁹ *Kewanee Oil Co.*, 416 U.S. at 480.

²¹⁰ 18 U.S.C. §§ 1831–1832.

²¹¹ Leon Randomsky, *Sixteen Years After the Passage of the U.S. Semiconductor Chip Protection Act: Is International Protection Working?*, 15 BERKELEY TECH. L.J. 1049, 1055 nn.13 & 15 (2000) (citing this author on reverse engineering as complete defense to trade secret misappropriation).

²¹² *Kewanee Oil Co.*, 416 U.S. at 481.

²¹³ *Id.* at 489.

²¹⁴ This is Judge Friendly's second category. *Id.* at 484.

²¹⁵ *Id.*

C. Injunction

In a typical infringement case, the plaintiff has the patent and claims that the defendant is engaging in conduct covered by the patent. An injunction is the correct remedy to get the defendant to stop infringing.

In other cases, both the plaintiff and defendant have patents, and the plaintiff succeeds in invalidating the defendant's patent. Then, an injunction is the right remedy to prohibit conduct under the now invalid patent.

1. Compelling Assignment of Patent

Still, in other cases, the defendant has the patent, and the plaintiff wants it. The most straightforward injunction in such a case is one compelling transfer of ownership. An inventor wrongly excluded from a patent may seek to have the patent assigned to him as a remedy. That might take the form of an injunction against the named owner of the patent, compelling the owner to make the assignment. The basic rules of thumb for allocating authority between federal and state courts say that state courts have authority to decide questions of ownership,²¹⁶ and such an injunction would appear to fall well within state law prerogative state court prerogative. On the other hand, some authority exists saying that assignment of patents is a matter of special concern to the patent statutes and so the authority of the state court to grant this remedy is not without doubt.

In *New Haven Sand Blast Co. v. Dreisbach*,²¹⁷ the Connecticut Supreme Court affirmed, in material part, an injunction compelling the defendants to transfer any future patents and patent applications as specific enforcement of a covenant to do so.²¹⁸

In *Atlas Press Co. v. Eames*,²¹⁹ the Michigan Supreme Court reversed the trial court's refusal to grant an injunction compelling the transfer of a patent on improvements pursuant to an assignment contract between the inventor and an entity that funded him early on.²²⁰

In *Chadeloid Chemical Co. v. H. B. Chalmers Co.*,²²¹ the court of appeals affirmed a decree enjoining defendants from any further use of defendants' patents or inventions, directed their conveyance to plaintiff, and

²¹⁶ *Sky Technologies LLC v. SAP AG*, 576 F.3d 1374, 1381 (Fed. Cir. 2009) (holding that state law providing for transfer of patent ownership pursuant to Article 9 of UCC is not preempted; finding standing to sue for infringement).

²¹⁷ *New Haven Sand Blast Co. v. Dreisbach*, 128 A. 320 (Conn. 1925).

²¹⁸ *Id.* at 329 (cited approvingly in *Fletcher-Terry Co. v. Grzeika*, 473 A.2d 1227, 1230 (Conn. Ct. App. 1984)).

²¹⁹ *Atlas Press Co. v. Eames*, 173 N.W. 344 (Mich. 1919).

²²⁰ *Id.* at 346.

²²¹ *Chadeloid Chemical Co. v. H. B. Chalmers Co.*, 242 F. 606 (2d Cir. 1917).

ordered that an account be taken of profits resulting to defendants from the manufacture under the patents, and of damages suffered by plaintiff by reason of the wrongful retention of the same by defendants.²²² This was an action in equity within the equitable jurisdiction of the district court and thus did not raise any question of preemption of state law or state court jurisdiction.²²³

In *SMS Demag Aktiengesellschaft v. Material Sciences Corp.*,²²⁴ the court of appeals reversed the district court and held that the plaintiff was entitled to reassignment of patents to it. An assignment agreement required reassignment of the patents to the assignor upon termination or expiration of the agreement, which occurred amidst controversy over payments.²²⁵ Subject matter jurisdiction was premised on diversity, so the outcome is authority for the validity of a transfer injunction based on state law.²²⁶

2. Enjoining Practice of Patent

An injunction against the practice of a patent does not extinguish the patent, but it would provide considerable leverage to bring the patent owner to the negotiating table. An injunction against practicing a patent might be available as a remedy for trade secret misappropriation to a plaintiff who can show that the patent includes trade secrets. But the risk of federal preemption is substantial given that such an injunction would interfere with rights granted by the patent statute. The answer to such a preemption argument would be that the patent statutes do not give an affirmative right to practice a patent; they only give a patent owner rights to prohibit others from practicing the patented invention during its life.

In *Hartford Empire Co. v. United States*,²²⁷ the Supreme Court held that patents validly obtained cannot be enjoined as a remedy for antitrust violations. Such an injunction would amount to unconstitutional confiscation of property.²²⁸ The offensive terms of the injunction also included requirements to transfer or license patents on terms approved by the antitrust court.²²⁹

Hartford Empire supports the possibility that an injunction against practicing a patent for reasons other than patent invalidity might be an unconstitutional taking.²³⁰

²²² *Id.* at 610.

²²³ *Id.*

²²⁴ *SMS Demag Aktiengesellschaft v. Material Sciences Corp.*, 565 F.3d 365 (7th Cir. 2009).

²²⁵ *Id.* at 372–373.

²²⁶ *Id.* at 366, 372–73.

²²⁷ *Hartford Empire Co. v. United States*, 323 U.S. 386 (1945).

²²⁸ *Id.* at 414–15.

²²⁹ *Id.* at 429–32.

²³⁰ *Id.* at 415.

D. Damages

The Patent Act authorizes damages,²³¹ injunctions,²³² and attorney's fees²³³ for infringement. Patent owners who win suits for infringement of their patents are entitled to a wide variety of damages.²³⁴ State law plaintiffs, asserting breach of assignment agreements, reversion of assigned patents, and breach of fiduciary obligation are entitled to such damages, as state law makes available for the particular legal theory. Remedies for trade-secret-misappropriation include injunctions²³⁵ and damages.

Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.²³⁶

"An award of damages for patent infringement may be split between lost profits as actual damages to the extent they are proven and a reasonable royalty for the remainder."²³⁷ "A patentee is entitled to no less than a reasonable royalty on an infringer's sales for which the patentee has not established entitlement to lost profits."²³⁸

A useful but non-exclusive test requires that the plaintiff "establish: (1) demand for the patented product; (2) absence of acceptable non-infringing substitutes; (3) manufacturing and marketing capability to exploit the demand; and (4) the amount of profit it would have made."²³⁹

Damages may extend to lost sales of unpatented products if proof shows that loss was a reasonably foreseeable consequence of infringing the patent.²⁴⁰ The unpatented components must, however, "function together with the patented component in some manner so as to produce a desired end

²³¹ 35 U.S.C. § 284.

²³² *Id.* § 283.

²³³ *Id.* § 285.

²³⁴ *Id.* § 284.

²³⁵ Uniform Trade Secrets Act § 2 (1985) (including reasonable royalties in exceptional circumstances) [hereinafter UTSA]; Defend Trade Secrets Act 18 U.S.C. § 1836(b)(3)(A) (injunction) [hereinafter DTSA].

²³⁶ UTSA § 3.

²³⁷ *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc).

²³⁸ *Id.* at 1554.

²³⁹ *Id.* at 1545 (citing *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978)).

²⁴⁰ *Id.* at 1548–49.

product or result. All the components together must be analogous to components of a single assembly or be parts of a complete machine, or they must constitute a functional unit.”²⁴¹

In *Maxwell v. J. Baker, Inc.*,²⁴²

the Federal Circuit approved the following jury instruction on damages: If you should find that Maxwell has sustained damages, the minimum amount of monetary damages that you may award is a reasonable royalty. A reasonable royalty is the amount of money which the owner of a patent would accept who is desirous of licensing another to use her patent in return for a royalty, but is not forced by financial need or other compulsion to do so, and the amount which a person would be willing to pay as a royalty who is desirous of obtaining a license to use the invention, but who is not compelled to do so.

* * *

In determining a reasonable royalty, you are to imagine that a hypothetical negotiation took place between J. Baker and Maxwell at or about the time that J. Baker first infringed the patent. You must assume that Maxwell was willing to grant a license and that J. Baker was willing to accept one

In determining the result of such a hypothetical negotiation, you may consider facts and events that occurred after the alleged infringement began even though they would not have been known to the parties at the time of the hypothetical negotiation

You may also consider evidence bearing on the actual commercial consequences of the infringement, including the amount of money Maxwell may have lost due to the infringement

Maxwell contends that she was forced to offer licenses based on a diminished royalty because she felt that there was a widespread and open disregard of her patent rights.

J. Baker, on the other hand, contends that the patent had not been disregarded and that Maxwell’s offers were consistent with her existing marketing program.

If you should find that the disregard of the patent forced Maxwell to seek a decreased royalty, you may determine that the rate offered by Maxwell was not a true measure of a reasonable royalty.²⁴³

In coming to its verdict, the jury undertook answering the following special interrogatories:

²⁴¹ *Id.* at 1550.

²⁴² *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098 (Fed. Cir. 1996).

²⁴³ *Id.* at 1108–09.

8. If you find that J. Baker infringed the Maxwell patent, what is a reasonable royalty rate per pair of shoes for use of the Maxwell patent?
9. What is the total number of pairs of shoes that J. Baker sold or used using the invention of the Maxwell patent during the period in which Maxwell is entitled to recover?
10. If you find that J. Baker infringed the Maxwell patent, was Maxwell damaged in excess of the amount of a reasonable royalty as a result of the infringement? If your answer to Question No. 10 is “Yes,” then answer Question No. 11.
11. What amount of money will compensate Maxwell for additional damages, if any, she sustained as a result of the infringement?²⁴⁴

Thus, the court asked the jury to determine both a “reasonable royalty” and additional damages necessary to compensate for the infringement.²⁴⁵

*Tex. Advanced Optoelectronic Sols., Inc. v. Renesas Elecs, Am., Inc.*²⁴⁶ involved potential merger partners who went to court after their merger negotiations fell apart. Texas Advanced Optoelectronic Solutions (“TAOS”), the plaintiff, sued in federal district court for infringement of a patent, trade secret misappropriation, breach of contract, and tortious interference with prospective business relations under Texas state law.²⁴⁷ A jury returned a verdict for TAOS and awarded damages on all four claims.²⁴⁸ The court of appeals affirmed liability for trade secret misappropriation and liability for infringement of the patent at issue.²⁴⁹ It vacated the monetary awards, and the case was remanded for further proceedings.²⁵⁰

The court reviewed the history of remedies for patent infringement:

Congress never authorized quasi-contract (legal) actions based on patent infringement. Originally, damages were authorized through traditional actions on the case. That remained true when a reasonable royalty came to be recognized as an available remedy, starting in the second half of the Nineteenth Century, and then definitively in *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 6488 (1915), and a subsequent statute, Pub. L. No. 67-147, § 8, 42 Stat. 389, 392 (1922). Not long before Congress abolished

²⁴⁴ *Id.* at 1109.

²⁴⁵ *Id.*

²⁴⁶ *Tex. Advanced Optoelectronic Sols., Inc. v. Renesas Elecs, Am., Inc.*, 895 F.3d 1304 (Fed. Cir. 2018).

²⁴⁷ *Id.* at 1308.

²⁴⁸ *Id.*

²⁴⁹ *Id.*

²⁵⁰ *Id.*

disgorgement of defendant's profits as a patent remedy, *see Aro Mfg. Co. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476, 504–05 (1964) (describing 1946 amendment), the Supreme Court observed that “recovery of profits . . . had been allowed *in equity* both in copyright and patent cases as appropriate equitable relief incident to a decree for an injunction,” *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 399 (1940) (emphasis added); to recognize that equity could award disgorgement of profits where equity jurisdiction otherwise attached, typically because the plaintiff had a right to an injunction). Certain scholars furnished an explanation for the law courts’ not providing disgorgement of the defendant’s profits for patent infringement, even though patent infringement sounded in tort, and restitution through a writ of assumpsit was broadly available for torts, including for the improper taking or use of intangible property, based on a theory of a contract implied in law (quasi-contract). Citing the facts that another’s use of a patent-protected idea does not prevent a patent owner from also using the invention and that all the infringer has taken at the owner’s expense is the owner’s right to exclude the infringer, these scholars reasoned that “the true measure of recovery” in restitution in an action in assumpsit based on patent infringement would not be “the profits actually reaped by the infringer, as in the case of a suit in equity for an injunction and accounting, but the value of the use of the invention—ordinarily determined by reference to the royalty or price paid for such use by licensees.” On that rationale, they said, the assumpsit measure of relief for this tort was limited to a reasonable royalty.

The apparent fact is that for patent infringement, disgorgement of profits was not historically available at law for those wrongs.²⁵¹

It went on to find that the award for patent infringement was duplicative of the award for trade secret misappropriation.²⁵² It started with the proposition that “[D]ouble recovery for the same injury is inappropriate.”²⁵³

Here, Intersil’s use of TAOS’s photodiode array structure is the basis of Intersil’s liability for both trade secret misappropriation and patent infringement. The award for patent infringement was based on a subset of the sales that form the basis of the award for trade secret misappropriation: patent infringement damages were based on sales of the ISL29001, ISL29002, ISL29003, and ISL29004; the trade secret

²⁵¹ *Id.* at 1323–25 (footnote omitted) (some internal quotations and citations omitted).

²⁵² *Id.* at 1328.

²⁵³ *Id.*

misappropriation award was based on sales of those four products and more than a dozen others.

* * *

The double recovery is clear from the TAOS expert's calculations. TAOS's expert calculated a disgorgement award for the trade secret misappropriation in which *all* profits made from sales of the infringing products (plus all profits made from sales of additional products) would go to TAOS. The expert calculated a reasonable royalty for the patent infringement based on a fraction of the total profits for those infringing products. The jury chose to award the full amount (\$48,783,007) of the expert's proposed disgorgement award for the trade secret misappropriation and a partial amount (\$73,653.51) of the expert's proposed royalty for the patent infringement (\$105,219).

The royalty award for patent infringement was therefore duplicative of some portion of the disgorgement award for trade secret misappropriation, to the extent the awards cover the same period.²⁵⁴

In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, the Supreme Court reversed the Federal Circuit and held that its two-part test for enhanced damages under section 284 too narrowly circumscribed district court discretion.²⁵⁵ “Enhanced damages are as old as U.S. patent law,” the Court said.²⁵⁶ Under various versions of the patent statutes treble damages had gone from being mandatory in all infringement cases, to being discretionary with the district courts.²⁵⁷ The 1952 Act made enhanced damages available only in “exceptional” cases.²⁵⁸

Awards of enhanced damages under the Patent Act over the past 180 years establish that they are not to be meted out in a typical infringement case, but are instead designed as a “punitive” or “vindictive” sanction for egregious infringement behavior.²⁵⁹ The sort of conduct warranting enhanced damages has been variously described in our cases as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate. District courts enjoy discretion in deciding whether to award enhanced damages, and in what amount. But through nearly two centuries of discretionary awards and review by appellate tribunals, the channel of

²⁵⁴ *Id.*

²⁵⁵ *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 579 U.S. 93 (2016).

²⁵⁶ *Id.* at 97.

²⁵⁷ *Id.* at 97–98.

²⁵⁸ *Id.* at 99–100 (citations omitted).

²⁵⁹ *Id.* at 103.

discretion has narrowed, so that such damages are generally reserved for egregious cases of culpable behavior.²⁶⁰

Justice Breyer in a concurring opinion joined by Justices Kennedy and Alito,²⁶¹ offered some additional touchstones:

- A court may not award enhanced damages simply because the infringer knew about the patent and nothing more.²⁶²
- Failure to consult counsel should not militate an award of enhanced damages.²⁶³
- Enhanced damages may not compensate patent owners for infringement related costs or litigation expenses; those are covered by section 285.²⁶⁴

E. Correction of Inventorship

Inventorship can be corrected during patent prosecution or after a patent is issued. Being named as a sole or co-inventor is desirable, compared to having only rights to receive a stream of payments from a patent, because a co-inventor has the power to commercialize the invention on her own, without the consent of other inventors.²⁶⁵

1. Section 116

Section 116(c) provides: “Whenever through error a person is named in an application for patent as the inventor, or through error an inventor is not named in an application, the Director may permit the application to be amended accordingly, under such terms as he prescribes.”²⁶⁶

The Patent Office rules require that all inventors consent to the change.²⁶⁷ Absent consent, the PTO can reject the application.²⁶⁸

Before issuance of a patent, an inventor has no recourse to federal court to correct inventorship.²⁶⁹

²⁶⁰ *Id.* at 103–104 (quotations and citations omitted).

²⁶¹ *Id.* at 110 (Breyer, J., concurring).

²⁶² *Id.*

²⁶³ *Id.* at 111–12; *see also* 35 U.S.C. § 298 (failure to obtain advice of counsel cannot be used to show willful infringement).

²⁶⁴ *Halo Elecs.*, 579 U.S. at 112.

²⁶⁵ 35 U.S.C. § 262.

²⁶⁶ *Id.* § 116(c).

²⁶⁷ 37 C.F.R. § 1.48(c) (requiring oath or affirmation).

²⁶⁸ *Sagoma Plastics, Inc. v. Gelardi*, 366 F. Supp.2d 185, 188 (D. Me. 2005).

²⁶⁹ *Id.*

2. Section 256

Section 256²⁷⁰ authorizes adding an inventor omitted from a patent through “error,” but only if all the parties and assignees agree.²⁷¹ It also, rather opaquely, refers to a “court before which such matter is called in question” and authorizes such a court to order a correction and obligates the Patent Office to issue an appropriate certificate of correction.²⁷² Before section 256 was added to the statute in 1952, the only remedy for nonjoinder or misjoinder was invalidation of the patent.²⁷³

In *Dee v. Aukerman*,²⁷⁴ the district court held that section 256 gives district courts original jurisdiction to order correction of inventorship, without need of either an infringement action or exhaustion of administrative remedies.²⁷⁵ In *E.I. Du Pont de Nemours and Co. v. Dudley*,²⁷⁶ the court held that *Dee* allows action in district court under section 256 to correct inventorship on an issued patent, without recourse to Patent Office, but for correction of inventorship in a patent application, an omitted inventor must go to Patent Office under section 116.²⁷⁷

In *Stevens v. Broad Reach Companies, L.L.C.*,²⁷⁸ the district court dismissed a declaratory judgment action to correct inventorship in a pending patent application, premised on the inability of the plaintiff to get others to agree to correction in a section 116 proceeding. The court held that section 116 provides the exclusive remedy for misjoinder or nonjoinder in a pending application, following the *DuPont* case.²⁷⁹

In *HIP, Inc. v. Hormel Foods Corp.*,²⁸⁰ the Federal Circuit reversed a finding that David Howard, an individual omitted from a patent, should be added to the patent as a joint inventor. Hormel contracted with Howard, the purported co-inventor, to assist it in developing improved cooking processes for pork loin.²⁸¹ Howard claimed that he contributed at least three concepts

²⁷⁰ 35 U.S.C. § 256.

²⁷¹ *Id.*

²⁷² *Id.*

²⁷³ *Pannu v. Iolab Corp.*, 155 F.3d 1344, 1350 (Fed. Cir. 1998) (citing *MCV, Inc. v. King-Seeley Thermos Co.*, 870 F.2d 1568, 1570 (Fed. Cir. 1989); S. REP. NO. 82-1979, at 7–8 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2401–02; S. REP. NO. 82-1979, at 27 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2393, 2421).

²⁷⁴ *Dee v. Aukerman*, 625 F.Supp. 1427 (S.D. Ohio 1986).

²⁷⁵ *Id.* at 1427–30.

²⁷⁶ *E.I. Du Pont de Nemours & Co. v. Okuley*, No. C2-97-1205, 2000 WL 1911430 (S.D. Ohio Dec. 21, 2000), *aff'd*, 344 F.3d 578 (6th Cir. 2003).

²⁷⁷ *Id.* at *11 (citing *Dee v. Aukerman*, 625 F. Supp. 1427 (S.D. Ohio 1986); *Chou v. Univ. of Chicago*, No. 99C4495, 2000 WL 222638, at *2 (N.D. Ill. Feb. 22, 2000)).

²⁷⁸ *Stevens v. Broad Reach Companies, L.L.C.*, No. 05-647-CV-W-GAF, 2006 WL 1556313 (W.D. Mo. May 31, 2006).

²⁷⁹ *Id.* at *8.

²⁸⁰ *HIP, Inc. v. Hormel Foods Corp.*, 66 F.4th 1346 (Fed. Cir. 2023).

²⁸¹ *Id.* at 1351.

to the invention.²⁸² Hormel appealed on the basis that Howard's contributions were anticipated or obvious under the prior art and they were not significant.²⁸³ The Federal Circuit agreed with Hormel:

[W]e find that Howard's alleged contribution of preheating meat pieces using an infrared oven is insignificant in quality, to the claimed invention. Howard's alleged contribution, preheating with an infrared oven, is mentioned only once in the '498 patent specification as an alternative heating method to a microwave oven. Further, the alleged contribution is recited only once in a single claim of the '498 patent, in a Markush group reciting a microwave oven, an infrared oven, and hot air.²⁸⁴

It cited *Pannu v. Iolab Corp.*²⁸⁵ for the text of joint inventorship. In the *Pannu* case, the Federal Circuit reversed the district court and held that William Link was an actual inventor. It reiterated that:

Inventors may apply for a patent jointly even though (1) they did not physically work together or at the same time, (2) each did not make the same type or amount of contribution, or (3) each did not make a contribution to the subject matter of every claim of the patent.²⁸⁶

The *Pannu* court went on to find that Link had satisfied the requirements for joint inventorship:

All that is required of a joint inventor is that he or she
(1) contribute in some significant manner to the conception or reduction to practice of the invention,
(2) make a contribution to the claimed invention that is not insignificant in quality, when that contribution is measured against the dimension of the full invention, and
(3) do more than merely explain to the real inventors well-known concepts and/or the current state of the art.²⁸⁷

²⁸² *Id.* at 1349.

²⁸³ *Id.* at 1350–51.

²⁸⁴ *Id.* at 1351–52.

²⁸⁵ *Pannu*, 155 F.3d 1344 (Fed. Cir. 1998).

²⁸⁶ *Id.* at 1351 (citing 35 U.S.C. § 116 (1994)).

²⁸⁷ *Id.* at 1351.

It held that the evidence supported submitting to a jury the question of whether Link is a co-inventor.²⁸⁸ It remanded for determination of that question and correction of the patent or a finding of invalidation.²⁸⁹

Confusion exists on whether an omitted inventor seeking relief directly in district court must satisfy the requirement of subsection (a), that all parties agree to correction of inventorship.

The Federal Circuit says the answer is “no.”²⁹⁰ “If the patentees and their assignees agree, correction can be had on application to the Commissioner. In the event consensus is not attained, however, the second paragraph of section 256 permits redress in federal court.”²⁹¹

In *HRD Corp. v. Bagherzadeh*,²⁹² the district court denied a motion to dismiss a declaratory judgment action brought by a corporation to remove an inventor who failed to identify his contributions during an arbitration proceeding, and who refused to consent to a joint effort in USPTO to correct inventorship. The court held that all-party consent was not necessary in a judicial proceeding:

Under the express language of the statute, the requirement that “all of the parties and assignees” file a joint application for a correction of a named inventor pertains to situations where “the Director . . . issues a certificate correcting [an] error.” 35 U.S.C. § 256. The sentence that empowers the Director to make such a correction is found in the statute’s first paragraph and bears no mention of a party requesting a correction through a court order. *Id.* The sentence empowering a court to order a correction of a named inventor is found in a separate paragraph and is conditioned only on the “notice and hearing of all parties concerned.” *Id.*; see also *MCV, Inc. v. King-Seeley Thermos Co.*, 870 F.2d 1568, 1570 (Fed.Cir.1989) (“In the event consensus is not attained [between all patentees and assignees], however, the second paragraph of [§] 256 permits redress in federal court.”).

The notion that the prerequisites for corrections issued by the Director are distinct from those issued by court order is reinforced by the language in the regulation, which arranges them disjunctively: “the Director . . . may, on application of all the parties and assignees, or on order of a court before which such matter is called in question . . .” 37 C.F.R. § 1.324(a) (emphasis added). The regulation makes clear that a party seeking a correction through a court order is not required to first

²⁸⁸ *Id.* at 1353.

²⁸⁹ *Id.*

²⁹⁰ *MCV, Inc. v. King-Seeley Thermos Co.*, 870 F.2d 1568, 1570 (Fed. Cir. 1989).

²⁹¹ *Id.*

²⁹² *HRD Corp. v. Bagherzadeh*, 822 F. Supp. 2d 667 (S.D. Tex. 2011).

obtain the consent of all the parties and assignees. *Id.* Accordingly, HRD was not required to obtain consensus from all of the parties and assignees before filing its complaint.²⁹³

The plaintiff, whether a former employee or a former employer, must be careful with this approach. The traditional remedy for misjoinder or nonjoinder was invalidation of the patent. So, a plaintiff seeking correction of inventorship in court may find the patent invalidated but nevertheless constituting prior art that prevents the plaintiff from obtaining a patent on her own. Protection against this unhappy eventuality should be available by a clear request to the district court to correct inventorship as the remedy rather than declaring the patent to be invalid, but the possibility exists that the choice between the two remedies would lie within the discretion of the court.

F. Shop Right Doctrine

The Supreme Court stated the shop right doctrine this way in *United States v. Dubilier Condenser Corp.*:²⁹⁴

One employed to make an invention, who succeeds, during his term of service, in accomplishing that task, is bound to assign to his employer any patent obtained. The reason is that he has only produced that which he was employed to invent. His invention is the precise subject of the contract of employment. A term of the agreement necessarily is that what he is paid to produce belongs to his paymaster. On the other hand, if the employment be general, albeit it covers a field of labor and effort in the performance of which the employee conceived the invention for which he obtained a patent, the contract is not so broadly construed as to require an assignment of the patent.²⁹⁵

In *Eenkhoorn v. N.Y. Tel. Co.*, the appellate court reversed the trial court and held that there was evidence countering the employee's claim that she worked on the invention in question on her own time and with her own resources.²⁹⁶ It reversed dismissal of the employer's shop right doctrine defense.²⁹⁷

The shop right doctrine operates with respect to patentable inventions.²⁹⁸ It is not clear that the doctrine applies to trade secrets.

²⁹³ *Id.* at 670.

²⁹⁴ *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933).

²⁹⁵ *Id.* at 187 (citations omitted).

²⁹⁶ *Eenkhoorn v. N.Y. Tel. Co.*, 514 N.Y.S.2d 160 (N.Y. App. Div. 1987).

²⁹⁷ *Id.* at 161.

²⁹⁸ *Bloom v. Hennepin Cnty.*, 783 F. Supp. 418, 439 (D. Minn. 1992).

In *Bloom v. Hennepin County*,²⁹⁹ the district court refused to apply the shop right doctrine in a trade secrets case. The plaintiff physician claimed that a hospital for which he had worked misappropriated his trade secrets after it fired him.³⁰⁰ The defendant claimed that they have a privilege to use any trade secrets under the shop right doctrine.³⁰¹ The court found no cases applying the shop right doctrine under the UTSA.³⁰² Even if it did apply under the statute, the facts of the plaintiff's claim did not qualify:

The shop right doctrine allows an employer to use an employee's invention under certain circumstances. In the instant case, however, plaintiff has alleged that defendants Davidman, Collins, and Shapiro misappropriated his trade secret not by using the protocol, but by improperly acquiring it. Thus, even if the shop right doctrine were incorporated into Minnesota law, it would not shield the defendants from liability under Minn. Stat. § 325C.01(3)(i), which prohibits acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means.³⁰³

Similarly, in *United Centrifugal Pumps v. Cusimano*,³⁰⁴ the district court doubted whether the shop right doctrine applies to trade secret cases.³⁰⁵ But in *Ewen v. Gerofsky*,³⁰⁶ the New York trial court held that an employer had a shop right to use the plaintiff employee's trade secrets.³⁰⁷

Robert P. Merges mounted a forceful argument in favor of legal doctrines allowing employers to take ownership of their employees' inventions in a 1999 law review article.³⁰⁸ He uses the shop right doctrine as an example of desirable legal doctrine, because it precludes holdup, and because it reflects objective practice where employers and employees commonly agree to split the benefits of job-related inventions.³⁰⁹ A holdup occurs when an employee, owning all the rights to a crucial invention, demands supranormal

²⁹⁹ *Id.*

³⁰⁰ *Id.*

³⁰¹ *Id.*

³⁰² *Id.*

³⁰³ *Id.*

³⁰⁴ *United Centrifugal Pumps v. Cusimano*, No. 87-3074, 1988 U.S. Dist. LEXIS 11012 (W.D. Ark. Aug. 31, 1988).

³⁰⁵ *Id.* at *35.

³⁰⁶ *Ewen v. Gerofsky*, 382 N.Y.S.2d 651 (Sup. Ct. 1976).

³⁰⁷ *Id.* at 654.

³⁰⁸ See Robert P. Merges, *The Law and Economics of Employee Inventions*, 13 HARV. J. L. & TECH. 1 (1999).

³⁰⁹ *Id.* at 17.

compensation for granting a privilege, after all other components of a business plan have fallen into place.³¹⁰

G. *Share of Royalties*

Assignors of patent rights are entitled to a share of royalties in accordance with the assignment contract.³¹¹ The assignee may have an implied contractual duty to obtain a patent and to commercialize it.³¹² An assignment agreement giving the assignor a share of royalties earned on a patent leaves the assignor with no equitable ownership interest sufficient to support standing to compel patent prosecution,³¹³ absent a condition subsequent causing reversion to the assignor.

H. *Quantum Meruit and Unjust Enrichment*

“A person who is unjustly enriched at the expense of another is subject to liability in restitution.”³¹⁴

The organizing thesis [is] that hitherto ignored bodies of common law, known then as the law of quasi-contract, and of equity, centering on the use of the constructive trust, could be unified and restated as a coherent legal subject resting on an underlying principle against unjust enrichment.³¹⁵

Although cases persist in which distinctions are drawn among unjust enrichment, quantum meruit,³¹⁶ constructive trust,³¹⁷ and quasi contract, they are all part of restitution and have essentially the same elements.

Section 13 of the Third Restatement makes a transfer “induced by fraud or material misrepresentation” subject to rescission and restitution; “[t]he transferee is liable in restitution as necessary to avoid unjust enrichment.”³¹⁸

³¹⁰ *Id.* at 13.

³¹¹ *Shaw v. Andrews*, 62 Fed. 460, 462 (C.C. D. N.Y. 1894) (ordering accounting for one-fourth share of profits made by assignee on his own use of patent).

³¹² *Bailey v. Chattem, Inc.*, 684 F.2d 386, 397 (6th Cir. 1982) (affirming award of \$27,000 for failure to commercialize patent under patent assignment agreement; citing authority, including *Corbin*, for duty to make best efforts to commercialize).

³¹³ *Kim v. Qugg*, 718 F. Supp. 1280, 1284 (E.D. Va. 1989) (granting summary judgment to Patent Office on its denial of motion to revive abandoned application).

³¹⁴ RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 1 (AM. L. INST. 2011).

³¹⁵ John D. McCamus, *The Restatement (Third) of Restitution and Unjust Enrichment*, 90 CAN. BAR REV. 439, 439 (2011) (referring to first Restatement, whose principles have been incorporated into third Restatement).

³¹⁶ RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 4 (AM. L. INST. 2011) (explaining that “quantum meruit” is just another term for “unjust enrichment”).

³¹⁷ *Id.*

³¹⁸ *Id.* §§ 13–14.

To obtain a remedy under this section, a plaintiff must prove predicate fraud or misrepresentation.³¹⁹

Section 42 of the Third Restatement expressly makes restitution available in the intellectual property context. “A person who obtains a benefit by misappropriation or infringement of another’s legally protected rights in any idea, expression, information, image, or designation is liable in restitution to the holder of such rights.”³²⁰ The language suggests that a remedy under this section requires proof of underlying misappropriation or infringement.³²¹

In *Bowden v. DB Schenker*,³²² the court of appeals affirmed dismissal of the plaintiff’s quantum meruit claim, as well as her trade-secret misappropriation claim.³²³

Nor has Bowden pled sufficient facts for a claim of *quantum meruit*. To state such a claim, a plaintiff must show that the party against whom recovery is sought either wrongfully secured or passively received a benefit that would be unconscionable for the party to retain without compensating the provider. Bowden was aptly compensated for her work during the term of her employment, and it is not unconscionable that Schenker benefits from the work of its employees such as Bowden. The assembly-line process was a product of her work during her term of employment and thus was not wrongfully secured. Bowden has not sufficiently pleaded facts supporting her *quantum meruit* claim, and the District Court rightfully dismissed this claim.³²⁴

The employee fared better in *Eenkhoorn v. N.Y. Tel. Co.*³²⁵ Jeanne Eenkhoorn was a telephone company manager who claimed she developed a procedure for terminating unpaying customers on her own time and with her own resources. She presented the idea to her supervisor, and it was adopted by the employer throughout its system, without any recognition or compensation to her.³²⁶ The New York intermediate court affirmed denial of summary judgment:

The record discloses viable causes of action in implied contract or, in the alternative, unjust enrichment predicated upon quasi-contract. As

³¹⁹ *Id.* § 13.

³²⁰ *Id.* at § 42.

³²¹ *Id.*

³²² *Bowden v. DB Schenker*, 693 F. App’x. 157 (3d Cir. 2017) (affirming dismissal for failure to state a claim).

³²³ *See supra* § II.A(analyzing trade-secret claim in *Bowden*).

³²⁴ *Bowden*, 693 F. App’x. at 160.

³²⁵ *Eenkhoorn v. N.Y. Tel. Co.*, 514 N.Y.S.2d 160 (N.Y. App. Div. 1987).

³²⁶ *Id.* at 161 (summarizing allegations).

to the former, plaintiff alleges that there exists a Company policy of compensation for suggestions by employees, and that she timely demanded compensation at or about the time her idea was disclosed. Issues of fact exist as to those allegations. Even absent proof of an express or implied contract, defendant may nevertheless be held liable in quasi-contract if the circumstances make it inequitable for the defendant to profit from the use of plaintiff's idea or material.

In order to demonstrate that defendant was enriched, plaintiff must prove (a) that the idea was novel; (b) that the idea was concrete; and (c) that the idea was actually appropriated by defendant and used in its business. These issues require exploration at a trial.³²⁷

In *Argue v. Triton Digital Inc.*,³²⁸ the court of appeals affirmed summary judgment for the employer on an unjust enrichment claim by an employee who contributed ideas for improving his employer's products.

Assuming without deciding that Argue made valuable contributions to his employers' products, and that Defendants have been enriched as a result, we consider whether that enrichment was unjust. That issue turns on one factual question: when Argue proposed the relevant improvements to Ando and Triton's products, was he essentially doing what those companies were already paying him to do, or was he so exceeding the scope of those duties that it might be unjust not to compensate him further? There is no dispute on the governing law—Argue concedes that he cannot claim unjust enrichment if he was just doing his job.

Argue described in his deposition what he considered his "inventive" work. First, he would use his exceptional industry knowledge to evaluate what existed in the market, what gaps there were in the market, and what could help clients. Then he would distill that information down into new feature sets and new inventions that Ando/Triton could use to help clients. Finally, he would pass those ideas on to the product teams at Ando and Triton.

The District Court found no genuine dispute that this was anything other than the work Defendants paid Mr. Argue to do.³²⁹

The court of appeals agreed.³³⁰

³²⁷ *Id.* (internal quotations and citations omitted).

³²⁸ *Argue v. Triton Digital Inc.*, 734 F. App'x. 148 (3d Cir. 2018).

³²⁹ *Id.*

³³⁰ *Id.* at 151–52.

Howard Wolfe, an airplane mechanic with American Airlines, developed an improved method for repairing aircraft parts and submitted it to American under its employee suggestion program.³³¹ Dissatisfied with American's award of points, Wolfe sued for breach of contract and conversion of intellectual property, in *Wolfe v. American Airlines*.³³² The district court granted summary judgment and the court of appeals affirmed.³³³ The court of appeals rejected the breach of contract claims because "the contract, construed as a whole, is unambiguous on the essential issue: defendant makes the final decision whether a suggestion is quantifiable. Because the language is unambiguous, it is the only legitimate evidence of the parties' intent."³³⁴ It found quasi-contract inapplicable because an express contract existed. It rejected the conversion claim, because Wolfe could not establish that he still had a property interest in his idea.

The program rules provide that all suggestions submitted become the sole and exclusive property of defendant. The employee suggestion form on which plaintiff submitted his idea just above the signature line provides "I (we) understand the terms and rules and agree that defendant has the absolute and exclusive right to the suggestion." Plaintiff contends that because defendant refused to pay him, it did not obtain an exclusive property interest in his suggestion. We disagree. Defendant fully complied with the contract by determining that plaintiff's suggestion was nonquantifiable and awarding plaintiff appropriate credits. Therefore, defendant acquired the exclusive interest in plaintiff's suggestion.³³⁵

The Federal Circuit reiterated the idea that an assignor of patent interests has nothing left after an assignment in *Board of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Systems, Inc.*³³⁶ The court held that, under an agreement to assign future inventions, legal title to the inventions passed to the assignee and the assignor inventor had nothing left.³³⁷

³³¹ *Wolfe v. Am. Airlines*, No. 94-5184, 1995 U.S. App. LEXIS 23747, at *2 (10th Cir. Aug. 21, 1995).

³³² *Id.* at *4.

³³³ *Id.* at *10.

³³⁴ *Id.* at *7 (citing *Founders Bank & Trust Co. v. Upsher*, 830 P.2d 1355, 1362 (Okla. 1992)).

³³⁵ *Id.* at *9–*10 (internal quotations and citations omitted).

³³⁶ *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys.*, 583 F.3d 832 (Fed. Cir. 2009), *aff'd*, 563 U.S. 776 (2011).

³³⁷ *Id.*

I. Execution of Civil Judgments and Bankruptcy

Patents are property subject to the execution of civil judgments.³³⁸ Such execution would transfer the patent to the judgment creditor or generate money to be paid to the judgment creditor in a sheriff's sale.³³⁹ Patents can be part of an estate in bankruptcy, and the bankruptcy court can compel or confirm their transfer by the bankruptcy trustee.³⁴⁰

So, a party claiming infringement can obtain a civil judgment and execute the judgment for damages against the patent.³⁴¹ The execution process would result in a sheriff's sale at which the patent might be sold to a third party with the judgment creditor receiving the proceeds or the judgment creditor might buy the patent in the sale.³⁴² In *Ager v. Murray*,³⁴³ the Supreme Court held that a common law writ of fieri facias—the antecedent of the modern writ of execution—could not be executed against a patent, but that a court of equity could order the patentee to make an assignment to satisfy a judgment and could appoint a trustee to execute an assignment if the patentee would not.³⁴⁴ The merger of law and equity and the abandonment of physical localization concepts for personal property suggest that the *Ager* two-step proceeding is quaint and unnecessary.³⁴⁵

Or, a former employer or—less likely—a former employee might be in bankruptcy, giving the opposing party from the former employment relationship access to the patent through the bankruptcy proceeding.³⁴⁶ In *Morrow v. Microsoft Corp.*,³⁴⁷ the court cited early twentieth-century case law to the effect that the mere appointment of a receiver, such as a bankruptcy trustee, does not transfer the title of patents.³⁴⁸ A bankruptcy court or court

³³⁸ *Patent Infringement and Litigation*, FIND LAW <https://www.findlaw.com/smallbusiness/intellectual-property/patent-infringement-and-litigation.html#:~:text=Where%20Do%20Patent%20Infringement%20Trials,aspects%20of%20the%20overall%20claim> (last visited May 22, 2024).

³³⁹ David J. Cook, *Post-Judgment Remedies in Reaching Patents, Copyrights and Trademarks in the Enforcement of a Money Judgment*, 9 NW. J. TECH. & INTELL. PROP. 128, 128 (2010).

³⁴⁰ *Id.* at 146.

³⁴¹ See *Patent Infringement and Litigation*, note 338.

³⁴² Cook, note 339, at 143.

³⁴³ *Ager v. Murray*, 105 U.S. 126, 131–32 (1881).

³⁴⁴ *Id.* at 132; see also Patents—Equitable Execution on Patent Rights, 23 Harv. L. Rev. 150, 150 (1909) (approving of receiver procedure; should be available regardless of whether patent is being worked); Yufa v. TSI Inc., Case No. 4:09-cv-01315-KAW, 2018 WL 3956489 at *3 (N.D. Cal. Aug. 17, 2018) (citing *Ager*, 105 U.S. 126, and approving order compelling assignment of patents to receiver to satisfy judgment).

³⁴⁵ See *Skycam, LLC v. Bennett*, 62 F. Supp.3d 1261, 1264 (N.D. Okla. 2014) (*Ager* is no longer good law; Fed. R. Civ. P. 69 authorizes execution against patent).

³⁴⁶ *Ager*, 105 U.S. at 129 (holding that patent rights vest in assignee in bankruptcy).

³⁴⁷ *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1335, 1344 (Fed. Cir. 2007) (describing trust established to hold patents in bankruptcy liquidation plan; trustee lacked standing to sue for infringement of patents).

³⁴⁸ *Id.* at 1337.

of equity, however, can compel the “assignment of legal title from the original owner to the receiver or trustee according to the requirements of the patent statutes.”³⁴⁹ In the case before it, another trustee in the liquidation structure had standing to sue for infringement—not the plaintiff.³⁵⁰

J. Holding Entities

When more than one party has an interest in a patent, they must decide who or what will hold the patent and make payments according to their agreement.³⁵¹ When only two parties are involved, such as a former employer and former employee, the simplest arrangement is a contractual provision obligating the patent owner to pay the transferor of the interests.³⁵² When multiple fractional interests in one or more patents are distributed among multiple beneficiaries, however, some independent form of legal entity is desirable to administer the arrangement. Corporations, limited liability companies, and trusts are the obvious possibilities. In any of the three arrangements, an individual or an entity would be denominated the trustee, the president of the corporation, or the manager of the LLC, and obligated to make the payments as provided in the assignment of the patent and the governing documents of the patent administering entity.

The beneficial interests in the trust would be defined and the shares of the corporation and membership interests in the LLC would be distributed according to the percentage interests provided in the assignment agreement.³⁵³

It is relatively easy, assuming the governance documents are appropriately drafted, for the beneficiaries—the royalty recipients—to control succession and to arrange for auditing, compared to the situation where a former employer has the accounting and distribution responsibility—and its interest may be adverse to the beneficiaries.

Trusts and LLCs are flexible, but it may be more cumbersome to arrange for transfer of interests in them.³⁵⁴ If a corporation is the entity, and its articles of incorporation and bylaws permit, an owner of shares can transfer them at will. Real liquidity in the interest of any of these entities is likely to be low, however.

³⁴⁹ *Id.* (citing *Ball v. Coker*, 168 F. 304, 307 (C.C.D.S.C. 1909)).

³⁵⁰ *Id.* at 1338.

³⁵¹ MPEP, *supra* note 152, § 301.

³⁵² *Id.*

³⁵³ 35 U.S.C. § 261.

³⁵⁴ *See, e.g.*, 6 Del. C. § 18-702; 35 U.S.C. § 261.

K. Invalidation of Patent

A disputant is least likely to seek invalidation of a patent covering the disputant's invention. That would deprive everyone involved of earnings from the invalid patent and furthermore, would place the patent's description into the public domain, making it prior art excluded from further patent applications.³⁵⁵ There may be situations, however, in which a former employee or former employer would desire to invalidate a patent that overlaps or conflicts with a patent already held by the former employer, former employee, or by a pending application. In such a case, invalidation of the existing patent would be a backdoor to victory in a derivation proceeding.³⁵⁶

L. Unfair Competition

Amorphous concepts of unfair competition such as those that led to the preemption conclusions in *Sears*, *Compco*, and *Bonito Boats*, have been narrowed in the Restatement (Third) of Unfair Competition to focus on trademark-like deception about product origin and misappropriation of trade secrets or personal rights of publicity. Sections 41 and 42 deal with duties of confidence and breach of such duties.³⁵⁷ Sections 43 to 45 deal with trade secret misappropriation.³⁵⁸ These sections add little to the analysis discussed elsewhere in this article.

IV. FORUMS AND FORMS OF ACTION

A. USPTO

A variety of avenues exist for access to the Patent Office when employers and former employees become involved in disputes over patent rights.³⁵⁹

Section 116 permits the patent office to resolve contests over inventorship by issuing certificates of correction, but its authority to do so depends on the erroneous inventorship in an application being innocent and on the originally named inventor and any new inventor to be added all consenting to correction.³⁶⁰ Section 116 is limited to pending applications for patents; it has no force once a patent is issued.³⁶¹

³⁵⁵ See 35 U.S.C. § 324; 35 U.S.C. § 282.

³⁵⁶ See MPEP, *supra* note 152, § 2310.

³⁵⁷ RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 41–42 (AM. L. INST. 1995).

³⁵⁸ *Id.* §§ 43–45.

³⁵⁹ 35 U.S.C. § 116–118.

³⁶⁰ *Id.* § 116.

³⁶¹ *Id.*

Section 118 allows the beneficiary of an obligation to assign patent rights to apply for a patent.³⁶² So, if a former employee refuses to assign rights under an invention assignment contract, his former employer can go ahead and apply for a patent. If the former employee has already applied for a patent in his own name, a second application in the former employer's name will set up a derivation proceeding under section 291.³⁶³

1. During Prosecution

i. Third-Party Submission

Third-party submissions, after an application is published under section 122(e),³⁶⁴ are not particularly useful in inventorship contests. Those submissions are limited to prior art, such as earlier patents, published patent applications, or other published material.³⁶⁵ If, however, a former employee or employer were to apply for a patent on something already having been patented by the other, the third-party position might be useful.

ii. Protest

37 CFR § 1.291 permits “a member of the public” to protest a patent application.³⁶⁶ MPEP 1901.02(C) expressly permits such a protest to include a claim that the applicant did not invent the matter for which a patent is applied. One is not entitled to a patent unless he is the inventor.³⁶⁷ The utility of the section 291 protest is limited because it must be filed before an application is published or before a patent is granted, whichever is earlier.³⁶⁸

But if a former employee or former employer learns of an application being filed that names the wrong inventors, they have a relatively short window to file a protest, which opens up the question of inventorship.

2. Post Grant Proceedings

Inter Partes Review³⁶⁹ is not likely to be useful in the context of employer-employee controversies. This type of post-issuance proceeding can be

³⁶² 35 U.S.C. § 118.

³⁶³ *Id.* § 291.

³⁶⁴ *Id.* § 122(e).

³⁶⁵ *Id.*

³⁶⁶ 37 CFR § 1.291.

³⁶⁷ MPEP, *supra* note 152, § 1901.02(C).

³⁶⁸ 35 U.S.C. § 291.

³⁶⁹ *Id.* § 311.

triggered only by presentation of prior art that might invalidate the patent.³⁷⁰ Ordinarily, a disappointed former employee or former employer is not interested in invalidating a patent but rather obtaining a share of earnings from it. Post Grant Review, on the other hand, permits broader attacks.³⁷¹ 35 U.S.C. § 321(b) authorizes Post Grant Review on “any ground specified in part II as a condition for patentability.”³⁷² Part II authorizes patents only to “inventors” of inventions.³⁷³ So, an attack on inventorship is within the scope of section 321(b).

Inventorship can be corrected in reissue proceedings³⁷⁴ and in reexamination proceedings³⁷⁵ as well.

B. Lawsuits

A variety of lawsuits can be filed over patent disputes, including infringement action filed under section 271,³⁷⁶ actions for correction of inventorship under section 256,³⁷⁷ actions for declaration of patent invalidity under section 2201,³⁷⁸ and actions for derivation under sections 291³⁷⁹ in United States district court. State court actions can be filed for breach of contract, misappropriation of trade secrets, breach of fiduciary obligation, and other implied duties. Federal enactment of the DTSA³⁸⁰ broadens the scope of federal subject matter jurisdiction beyond literal patents.

1. Sovereign Immunity

The USPTO, as an agency of the United States Government, enjoys sovereign immunity against civil actions.³⁸¹

³⁷⁰ *Id.* § 311(b) (Inter Partes Review).

³⁷¹ *Id.* § 321.

³⁷² *Id.* §§ 282(b), 321(b).

³⁷³ *Id.* § 282.

³⁷⁴ MPEP, *supra* note 152, § 1402(II).

³⁷⁵ MPEP, *supra* note 152, § 2250.02.

³⁷⁶ 35 U.S.C. § 271.

³⁷⁷ *Id.* § 256.

³⁷⁸ 28 U.S.C. § 2201; *see also* MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118, 137 (2007) (patent licensee need not break or terminate license agreement before bringing declaratory judgment action to invalidate patent to find it unenforceable or to find that it is not infringing (*rev'g* Fed. Cir.)).

³⁷⁹ 35 U.S.C. § 291.

³⁸⁰ DTSA of 2016, S. 1890, 114th Cong. § 2 (2016); *see also* 18 U.S.C. § 1832 (as codified into United States Code).

³⁸¹ Fraternal Order of Police v. Gates, 562 F. Supp. 2d 7, 11 (D.D.C. 2008).

The United States Government is immune from suit except when it expressly consents to be sued.³⁸² “A waiver of sovereign immunity cannot be implied; it must be unequivocally expressed.”³⁸³

The Administrative Procedure Act (APA) generally waives the federal government’s immunity from a suit “seeking relief other than money damages and stating a claim that an agency or an officer or employee thereof acted or failed to act in an official capacity or under color of legal authority.”³⁸⁴ But the “waiver ... does not apply ‘if any other statute that grants consent to suit expressly or impliedly forbids the relief which is sought’ by the plaintiff.”³⁸⁵ “That provision prevents plaintiffs from exploiting the APA’s waiver to evade limitations on suit contained in other statutes.”³⁸⁶

In *Fraternal Order of Police v. Gates*,³⁸⁷ the Fraternal Order of Police sought to compel the Department of Defense to arbitrate grievances under the APA. The district court dismissed the action:

The APA provides for a limited waiver of sovereign immunity for “[a] person suffering legal wrong because of agency action, or adversely affected or aggrieved by agency action within the meaning of a relevant statute.” 5 U.S.C. § 702. However, a plaintiff may not rely on this waiver “if any other statute that grants consent to suit expressly or impliedly forbids the relief which is sought.” *Id.* As explained below, the APA’s waiver of sovereign immunity is specifically precluded by provisions of the Federal Services Labor Management Relations Act (“FSLMRA”) under the Civil Service Reform Act (“CSRA”). Accordingly, Plaintiff cannot obtain relief under the APA. *See id.* §§ 701, 704 (permitting APA review only for final agency action “for which there is no other adequate remedy”).³⁸⁸

Various provisions of Title 35 waive USPTO’s sovereign immunity with respect to particular types of proceedings, within strict limits of jurisdiction,

³⁸² *Id.* at 11–12 (dismissing APA claim against PFPA because of failure to exhaust administrative remedies under agency’s statute).

³⁸³ *Id.* at 11; *Bowhall v. Office of James M. Diemen*, No. 2:10-cv-604-WKW, 2010 U.S. Dist. LEXIS 120838 at *10 (M.D. Ala. Oct. 18, 2010) (dismissing pro se complaint against Patent Office; no showing of waiver of sovereign immunity); *United States v. Sherwood*, 312 U.S. 584, 586, 591 (1941) (dismissing breach of contract lawsuit against United States filed in district court rather than in Court of Claims; construing statutory waiver narrowly).

³⁸⁴ *Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians v. Patchak*, 567 U.S. 209, 215 (2012) (citing 5 U.S.C. § 702).

³⁸⁵ 5 U.S.C. § 702.

³⁸⁶ *Patchak*, 567 U.S. at 215 (internal quotations and citations omitted).

³⁸⁷ *Gates*, 602 F. Supp. 2d 104, 106 (D.D.C. 2009).

³⁸⁸ *Id.* at 107.

standards of review, and timing.³⁸⁹ In *Polaroid Corp. v. Markham*,³⁹⁰ for example, the court held that the United States Government had waived its sovereign immunity as to suits against the Patent Office under section 4915 of the Revised Statutes.³⁹¹

Litigants may not sidestep these limitations by resorting to the APA.³⁹²

2. Federal Court

i. Subject Matter Jurisdiction and Preemption

28 U.S.C. § 1338 grants subject matter jurisdiction to the United States district courts over claims “arising under” the patent laws.³⁹³ It also prohibits state courts from exercising jurisdiction over such claims.³⁹⁴ The use of the phrase “arising from” rather than other language such as “related to” or “involving” makes it clear that the patent statutes must be the source of the right asserted in order for federal jurisdiction to exist.³⁹⁵

In *Hunter Douglas v. Harmonic Design, Inc.*,³⁹⁶ the Federal Circuit held that a question of federal patent law under section 1338 is substantial enough to support federal subject matter jurisdiction when resolution of a state claim turns on the validity and enforceability of a patent, applying the outcome-determinative test of *Merrill Dow*.³⁹⁷

So, the court said at least four issues of federal patent law can support jurisdiction: infringement, inventorship issues under sections 116 and 256, attorney’s fees under section 285, revival of an application or the right to file a continuation application, and now validity and enforceability.³⁹⁸

In *Jim Arnold Corp. v. Hydrotech Sys.*,³⁹⁹ the plaintiff was an inventor who assigned all of his patent rights. He sued in state court for fraudulent

³⁸⁹ See 35 U.S.C. §§ 154, 145, 271(h).

³⁹⁰ *Polaroid Corp. v. Markham*, 148 F.2d 219 (1945).

³⁹¹ *Id.* at 220–21 (referring to what is now 35 U.S.C. §§ 145, 146, authorizing civil actions against USPTO to compel issuance of patent wrongfully denied).

³⁹² *Actelion Pharms. Ltd. v. Kappos*, 972 F. Supp.2d 51, 58 n.9 (D. D.C. 2013) (rejecting Patent Term Adjustment Act claim based on argument that USPTO rule was arbitrary and capricious and violative of APA; APA waives sovereign immunity only to extent that remedy is not afforded by another statute waiving immunity and providing relief).

³⁹³ *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988) (holding that “arising under” means either that federal law creates the cause of action or that resolution of the state-law claim necessarily depends on an issue of patent law).

³⁹⁴ 28 U.S.C. § 1338(a).

³⁹⁵ *Id.*

³⁹⁶ *Hunter Douglas v. Harmonic Design, Inc.*, 153 F.3d 1318, 1322 (Fed. Cir. 1998), *overruled in part on other grounds* by *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1360–61 (Fed. Cir. 1999) (en banc in part).

³⁹⁷ *Id.* at 1330.

³⁹⁸ *Id.* at 1330 (referring to *Merrell Dow Pharms. Inc. v. Thompson*, 478 U.S. 804, 807–08 (1986)).

³⁹⁹ *Jim Arnold Corp. v. Hydrotech Sys.*, 109 F.3d 1567, 1572 (Fed. Cir.1997) (holding that district court lacked subject matter jurisdiction over claim).

misrepresentation, breach of fiduciary duties, breach of the covenant of good faith and fair dealing, tortious interference with business relations, and breach of contract.⁴⁰⁰ He sought rescission of his assignment agreement and rescission of Hydrotech's assignment to others on the grounds that Hydrotech's interest in the patent was void and thus it has nothing to assign.⁴⁰¹

[I]n order for the federal district court to reach the patent infringement claim, it first must resolve the ownership interests resulting from the long and convoluted chain of transactions and assignments therein outlined. In addition, the court would have to determine whether, as a matter of contract remedy, to rescind the assignments based on Arnold's various claims of contract wrongs. Assuming that the district court decided that the relevant assignments should be rescinded and that Arnold should be declared the owner of the patents, only then could it reach the patent infringement issue.⁴⁰²

The court thought that *Wilson v. Sandford*⁴⁰³ and *Luckett v. Delpark, Inc.*⁴⁰⁴ compelled dismissal for lack of subject matter jurisdiction.

The court distinguished assignments from license agreements.⁴⁰⁵ License agreements leave ownership with the licensor; assignments extinguish the assignor's ownership.⁴⁰⁶ So when an infringement action also involves controversies over a license agreement, a federal court has jurisdiction under section 1338.⁴⁰⁷ But when standing for claim infringement depends on voiding or rescinding an assignment, no federal jurisdiction exists until the state-law bases for voiding or rescission are determined.⁴⁰⁸

It had no doubt that its case "did not arise under the patent laws."⁴⁰⁹ It vacated the district court judgment and ordered remand to state court.⁴¹⁰

⁴⁰⁰ *Id.* at 1573 (summarizing claims).

⁴⁰¹ *Id.* at 1572–74.

⁴⁰² *Id.* at 1574.

⁴⁰³ *Wilson v. Sandford*, 51 U.S. 99, 102 (1850) (finding no jurisdiction over claims that patent rights referred to the assignor because of nonpayment of notes).

⁴⁰⁴ *Luckett v. Delpark, Inc.*, 270 U.S. 496, 510–11 (1926) (finding no federal jurisdiction over patent infringement claims premised on reversion of ownership because of nonpayment of royalties agreed to in the assignment).

⁴⁰⁵ *Jim Arnold Corp.*, 109 F.3d at 1577.

⁴⁰⁶ *Id.*

⁴⁰⁷ *Id.* at 1577.

⁴⁰⁸ *Id.* at 1577–78.

⁴⁰⁹ *Id.* at 1579 (internal quotations and citations omitted).

⁴¹⁰ *Id.*

Subject matter jurisdiction and preemption are complementary concepts. Section 1338⁴¹¹ addresses both with the same criterion: “arising under.”⁴¹² Therefore, if a claim is within the subject matter jurisdiction of a federal court, state court jurisdiction is preempted.⁴¹³ Conversely, if a federal court lacks subject matter jurisdiction under the section, a state court has power.⁴¹⁴

Choice of law is distinct from subject matter jurisdiction.⁴¹⁵ A federal court with subject matter jurisdiction under section 1338 also has supplemental jurisdiction under section 1367⁴¹⁶ over state claims so closely related to the federal claim they constitute a single case or controversy. This is commonly expressed as all the claims having a “common nucleus of operative fact.”⁴¹⁷ So, if an infringement claim or an inventorship dispute is associated with claims over, say, trade secret misappropriation⁴¹⁸ or nonpayment of royalties due, state law contract questions relating to payment of royalties would be within the federal court’s jurisdiction.⁴¹⁹ It would, however, be obligated by *Erie Railroad v. Thompkins*⁴²⁰ to apply state law to those questions.

Enactment of the federal DTSA means that plaintiffs with both patent-infringement and trade secrets claims need not worry about splitting their claims between federal and state court or about an inability to satisfy the

⁴¹¹ 28 U.S.C. § 1338.

⁴¹² *Id.* § 1338(a).

⁴¹³ *Id.*

⁴¹⁴ *Id.*

⁴¹⁵ *Brown v. Progressive District Ins. Co.*, No. 29348, 2010 Haw. App. LEXIS 211, *16 (Haw. Ct. App. 2010) (citing *Iowa ex rel. Miller v. Baxter Chrysler Plymouth, Inc.*, 456 N.W.2d 371, 378 (Iowa 1990)).

⁴¹⁶ 28 U.S.C. § 1367(a) (granting supplemental jurisdiction to district courts).

⁴¹⁷ *Angioscore, Inc. v. Trireme Medical, LLC*, 666 Fed. Appx. 884, 887 (Fed. Cir. 2016) (citing *Highway Equip. Co. v. FECO, Ltd.*, 469 F.3d 1027, 1038 (Fed. Cir. 2006)) (reversing exercise of supplemental jurisdiction over patentee’s state-law claims for breach of fiduciary responsibility in an infringement case; no common nucleus of operative fact existed).

⁴¹⁸ *Tex. Advanced Optoelectronic Sols., Inc. v. Renesas Elecs. Am., Inc.*, 895 F.3d 1304, 1310 (Fed. Cir. 2018) (involved potential merger partners who went to court after their merger negotiations fell apart. TAOS, the plaintiff, sued in federal district court for infringement of a patent and for trade secret misappropriation, breach of contract, and tortious interference with prospective business relations under Texas state law. *Id.* A jury returned a verdict for TAOS and awarded damages on all four claims. *Id.* The Court of Appeals affirmed liability for trade secret misappropriation and liability for infringement of the patent at issue. *Id.* at 1332. It vacated the monetary awards and remanded for further proceedings. *Id.* The Court of Appeals noted subject matter jurisdiction under patent, diversity, and supplemental jurisdiction, without adverse comment. *Id.* at 1311.).

⁴¹⁹ *H.R. Techs., Inc. v. Astechnologies, Inc.*, 275 F.3d 1378, 1386 (Fed. Cir. 2002) (the Federal Circuit found that supplemental jurisdiction continued to exist over state claims for tortious interference with business relations even after a claim for patent infringement was dismissed. *Id.* A federal counterclaim for unfair competition under the Lanham Act continued in the case, and that was sufficient to confer supplemental jurisdiction. *Id.*).

⁴²⁰ *Erie R.R. v. Thompkins*, 304 U.S. 64, 78 (1938).

requirements for supplemental jurisdiction under section 1367.⁴²¹ They may bring both categories of claims directly in federal court.⁴²²

The questions of preemption and subject matter jurisdiction may be tested either in a motion to dismiss in either state or federal court, or by removal of an action filed in state court to federal court followed by a motion to remand.

ii. Correction of Inventorship Under Section 256

In *Stark v. Advanced Magnetics, Inc.*,⁴²³ the Federal Circuit reversed the district court's decision and held that correction of inventorship under 35 U.S.C. § 256 requires innocent intent by the conjoined inventor, not by the named inventor. The plaintiff collaborated with the defendant.⁴²⁴ Their joint work resulted in six patents, but the plaintiff was not named as a co-inventor on any of them.⁴²⁵ He sued for correction of inventorship under section 256 and for damages and injunctive relief under Massachusetts conversion, theft of trade secrets, fraud, and deceptive conduct.⁴²⁶ The Federal Circuit held that Stark was entitled to have the inventorship corrected to include him.⁴²⁷ It also held, however, that if he succeeded in establishing inequitable conduct by the defendants the patents would be unenforceable by him as well as by the defendants.⁴²⁸

Borden Larson was denied an attempt to correct inventorship under section 256 in *Larson v. Correct Craft, Inc.*⁴²⁹ He signed documents to support his employer's application for patents on work that Larson, his boss, and a fabrication contractor had done. Among them were declarations filed with USPTO attesting that he was a co-inventor.⁴³⁰ The documents also included an assignment of all of his interests to the employer.⁴³¹ He received no additional compensation for making the assignments.⁴³² After he was terminated, he sued his former employer, his former boss, and the fabrication

⁴²¹ *Lavvan, Inc. v. Amyris, Inc.*, No. 21-1819, 2022 U.S. App. LEXIS 25861, *1 (2d Cir. Sep. 15, 2022).

⁴²² *Id.* For example, the plaintiff filed an action in district court alleging trade secret misappropriation under the DTSA based on the defendant's disclosing or using trade secrets without Lavvan's consent and improperly acquiring knowledge of trade secrets and for infringement of twenty patents by using them, without authorization, to develop, manufacture, and commercialize cannabinoids. *Id.* at 7. The Court of Appeals affirmed denial of a motion to compel arbitration and remanded. *Id.* at 9.

⁴²³ *Stark v. Advanced Magnetics, Inc.*, 119 F.3d 1551, 1555 (Fed. Cir. 1997).

⁴²⁴ *Id.* at 1552.

⁴²⁵ *Id.*

⁴²⁶ *Id.*

⁴²⁷ *Id.* at 1556.

⁴²⁸ *Id.*

⁴²⁹ *Larson v. Correct Craft, Inc.*, 569 F.3d 1319, 1328 (Fed. Cir. 2009).

⁴³⁰ *Id.* at 1322.

⁴³¹ *Id.*

⁴³² *Id.*

company owner in state court for fraud, constructive fraud, rescission, breach of contract, and unjust enrichment against Correct Craft; additionally, he filed three counts seeking declaratory judgments that “Larson’s assignments do not clearly transfer title to the wakeboard-tower patents and that Correct Craft has only a nonexclusive license to the patents . . . and that Todd and Snook have ‘no rights to claim co-inventorship of the tower.’”⁴³³ The defendants removed on the grounds that the declaratory judgment requests amounted to petitions for correction of inventorship under section 256.⁴³⁴

The court noted that if the district court had jurisdiction under section 256, it could exercise supplemental jurisdiction over the state claims.⁴³⁵ Recalling its decision in *Chou v. Univ. of Chicago*, however, the court held, “Larson’s financial stake in the patents is contingent on him obtaining relief that a federal court has no jurisdiction under section 1338 to provide.”⁴³⁶ “Because Larson lacks an ownership interest, and because being declared the sole inventor will not generate any other direct financial rewards as in *Chou*, Larson has no constitutional standing to sue for correction of inventorship in federal court.”⁴³⁷

3. State Court

i. Preemption

In *Sears, Roebuck & Co. v. Stiffel Co.*,⁴³⁸ *Compco Co. v. Day-Brite Lighting, Inc.*,⁴³⁹ and *Bonito Boats, Inc. v. Thunder Craft Boats*,⁴⁴⁰ the Supreme Court held that that states impermissibly interfere with the balance struck by the Patents and Copyrights Clause and the Patent Act when they allow the establishment of monopolies over information and activities that the patent laws leave in the public domain.⁴⁴¹

In *Kewanee Oil Co. v. Bicron Corp.*,⁴⁴² the Court started with the proposition that “[t]he only limitation on the States is that in regulating the

⁴³³ *Id.* at 1322, 1325.

⁴³⁴ *Id.* at 1321.

⁴³⁵ *Id.* at 1325–26.

⁴³⁶ *Id.* at 1327.

⁴³⁷ *Id.*

⁴³⁸ *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231–32 (1964) (holding that pole lamp, a patent on which had been invalidated, could not be protected against copying by state unfair competition law).

⁴³⁹ *Compco Co. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 239 (1964) (holding that state unfair competition law could not protect lighting fixture from copying after design patent was declared invalid; suggesting that state trademark protection would be permissible).

⁴⁴⁰ *Bonito Boats, Inc. v. Thunder Craft Boats*, 489 U.S. 141, 158–159 (1989) (holding that state may not prohibit use of molding process to produce unpatented and unpatentable boat hulls; reconciling *Kewanee* with *Sears* and *Compco*, based on extra elements for trade secret misappropriation).

⁴⁴¹ *Compco*, 376 U.S. at 234.

⁴⁴² *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

area of patents and copyrights they do not conflict with the operation of the laws in this area passed by Congress.”⁴⁴³ Framing the inquiry in terms of whether the state law represented an obstacle to accomplishment of constitutional and congressional objectives, the *Kewanee* Court identified two such objectives: (1) “to promote the Progress of Science and useful Arts . . . by offering a right of exclusion for a limited period,” and (2) to make certain “that which is in the public domain cannot be removed therefrom by action of the States.”⁴⁴⁴ The Court concluded, first, that federal patent law was not “disturbed by the existence of another form of incentive to invention” and, second, that since a trade secret was, by definition, never in the public domain, there was no attempt by a state to remove from the public domain that which was placed there by Congress.⁴⁴⁵

Justice Douglas dissented in *Kewanee*,⁴⁴⁶ approving damages for trade secrets as not preempted but arguing that a permanent injunction against trade secret infringement is the equivalent of a permanent patent and, therefore, conflicts with the patent laws and should be preempted.⁴⁴⁷

Kewanee excused trade secret law from preemption because trade secret law is aimed at protecting a different interest—business morality—not a concern of the patent laws.⁴⁴⁸ Moreover, the degree of interference between trade secret protection patent law is minimized because trade secrets are not in the public domain like the inventions in *Sears Roebuck*, *Compco*, and *Bonito Boats*; they are secret.⁴⁴⁹

Subsequently, in *Aronson v. Quick Point Pencil Co.*,⁴⁵⁰ the Court held that federal patent law did not preempt state contract law so as to preclude enforcement of a contract. The Court held that “[s]tate law is not displaced merely because the contract relates to intellectual property which may or may

⁴⁴³ *Id.* at 479. In *Kewanee*, the petitioner sued the respondents alleging that the respondents misappropriated certain trade secrets belonging to the petitioner. *Id.* at 473. The court of appeals had found that the respondents had violated Ohio trade secret law, but that the Ohio law was preempted by the patent laws of the United States. *Id.* at 474. The Supreme Court reversed, determining that the objectives of patent law, as expressed in the then-current statute, did not conflict with the objectives of Ohio trade secret law. *Id.* at 493.

⁴⁴⁴ *Id.* at 480–81.

⁴⁴⁵ *Id.* at 481, 484.

⁴⁴⁶ *Id.* at 488–89 (Douglas, J., dissenting).

⁴⁴⁷ *Id.* at 488–89.

⁴⁴⁸ *Id.* at 481–82.

⁴⁴⁹ *Id.* at 475.

⁴⁵⁰ *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979). In *Aronson*, the petitioner, Mrs. Aronson, an inventor, entered into a contract with the respondent, Quick Point Pencil Co., by which Quick Point agreed to pay her a royalty fee in exchange for the exclusive right to make and sell her invention. *Id.* at 259. Mrs. Aronson was unable to obtain a patent for the invention, and Quick Point brought an action seeking to have the contract declared unenforceable on the ground that the state law, which made the contract enforceable, was preempted by federal patent law. *Id.* at 260.

not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law.”⁴⁵¹

The preemption inquiry focuses on potential conflict between federal objectives and state law.⁴⁵² When trade secrets or confidential agreements are involved, the covered information cannot be disseminated or used beyond the scope of the agreement.⁴⁵³ Under the *Goldstein* analysis, the issue is whether this result conflicts with federal law and is therefore inappropriate under the Supremacy Clause.⁴⁵⁴

Traditional conceptions of trade secret law avoid preemption because the secrecy element and the requirement for either a special relationship or improper means are distinct elements, going beyond the requirements of either patent or copyright.⁴⁵⁵

Out of these cases come the following principles:

States may not give patent-like protection to something that is not patented; to do so would interfere with the public domain meant by the patent laws to be free for exploitation by everyone.⁴⁵⁶ That proposition is the holdings of *Sears*, *Compco*, and *Bonito Boats*.⁴⁵⁷

States may not remove something from the patentable universe.⁴⁵⁸ To do so would interfere with the federal determination reflected in section 101 of the Patent Act.⁴⁵⁹ For example, desires by anti-technology activists to obtain state laws to eliminate patent incentives from AI inventors would be frustrated by federal preemption.

States may not boost patent protection by extending the patent term, as by allowing royalties to be enforced beyond the expiration of a patent, by expanding the scope of a patent, by interpreting its claims, or by intensifying remedies for patent infringement, as by affording, say, quadruple damages for infringement in the discretion of the jury without an instruction requiring

⁴⁵¹ *Id.* at 262 (citing *Kewanee Oil*, 416 U.S. at 479) (the Court concluded that requiring Quick Point to pay a royalty to Mrs. Aronson in no way interfered with the objectives of federal patent law. “[A] state may not forbid the copying of an idea in the public domain” but “[e]nforcement of Quick Point’s agreement . . . does not prevent anyone from copying the [idea] It merely requires Quick Point to pay consideration which it promised in return for use of a novel device” *Id.* at 264 (citations omitted)).

⁴⁵² *Id.* at 262.

⁴⁵³ *Oxford Inc. v. Hunter*, 630 Fed. Appx. 566, 567 (2015).

⁴⁵⁴ *Goldstein v. California*, 412 U.S. 546, 561 (1973).

⁴⁵⁵ *Drill Parts & Serv. Co. v. Joy Mfg. Co.*, 439 So. 2d 43, 50 (Ala. 1983) (rejecting the argument that federal patent and copyright laws generally preempt state trade secret protection; challenged order only precluded the use of drawings improperly obtained, leaving other means of access to information available).

⁴⁵⁶ *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232–33 (1964); *Compco Co. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238–39 (1964); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 161–63 (1989).

⁴⁵⁷ *Sears*, 376 U.S. at 232–33.

⁴⁵⁸ *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1473–74 (Fed. Cir. 1998) (citations omitted).

⁴⁵⁹ 35 U.S.C. § 101.

a finding of intentional and willful action.⁴⁶⁰ Thus, duplication of federal remedies is inconsistent with patent law and therefore preempted.⁴⁶¹

In contrast, state law touching on intellectual property interests is not preempted if it protects against a different evil.⁴⁶² For example, states may penalize bad faith assertion of patent rights; federal law only protects good faith assertion, leaving the treatment of bad faith assertion open for state regulation.⁴⁶³ And, hypothetically, a state could prohibit murdering someone with a patented weapon, even though an element of the crime was a valid patent on the weapon, putting the state court in the position of deciding patent validity.⁴⁶⁴

So, a claim for fraudulent misrepresentation incident to the negotiation of a patent assignment agreement should not be preempted because fraud is a mental state distinct from the elements addressed in patent law.⁴⁶⁵

Whether a state claim for unjust enrichment coupled with a patent infringement claim is preempted depends on whether the unjust enrichment claim contains elements different from the elements of patent infringement.⁴⁶⁶ Likewise, claims of unfair competition are fraught with preemption problems because unfair competition was the theory behind the preempted claims of *Sears*, *Compco*, and *Bonito Boats*, but unfair competition claims can be premised on scienter allegations that are distinct from the elements of patent claims.⁴⁶⁷ Moreover, intentional interference with contractual relations claims may be preempted if the conduct constituting interference is no more than patent infringement, but they should not be preempted if the conduct making the interference wrongful⁴⁶⁸ is distinct from the conduct constituting the infringement.

In *Knova Software, Inc. v. Inquira, Inc.*,⁴⁶⁹ the plaintiff joined three state law claims to its claim for patent infringement: international interference with contractual relations, unjust enrichment, and unfair competition. The district dismissed two as being preempted.⁴⁷⁰ The intentional interference

⁴⁶⁰ *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964) (citation omitted); *Jenny Yoo Collection, Inc. v. Essence of Austl., Inc.*, 448 F. Supp. 3d 1162, 1168 (D. Kan. 2020).

⁴⁶¹ *Dow*, 139 F.3d at 1478 (finding no duplication of federal remedies and thus no preemption; suggesting that duplication of remedies would be preempted); *id.* at 1480–1481 (Lourie, J., dissenting in part) (duplication of remedies leads to preemption).

⁴⁶² *Id.* at 1477.

⁴⁶³ *Id.*

⁴⁶⁴ *Id.*

⁴⁶⁵ *Id.*

⁴⁶⁶ *See id.* at 1475–76 (citations omitted).

⁴⁶⁷ *Id.*

⁴⁶⁸ RESTATEMENT (SECOND) OF TORTS § 766 (AM. L. INST. 1979) (defining tort of intentional interference with contract); *id.* § 767 (listing factors for determining whether interference is improper).

⁴⁶⁹ *Knova Software, Inc. v. Inquira, Inc.*, No. 06-381-JJF, 2007 U.S. Dist. LEXIS 31121, *2 (D. Del. Apr. 27, 2007).

⁴⁷⁰ *Id.* at *5–9.

claim was based entirely on the patent-infringing conduct, thus distinguishing it from *Dow Chemical Co. v. Exxon Corp.*⁴⁷¹ The unfair competition claim similarly was premised on no conduct other than patent infringement and thus was preempted.⁴⁷² The unjust enrichment claim, on the other hand, was not preempted because it was based on an “incremental benefit” conferred beyond that arising from patent infringement.⁴⁷³

If the conduct addressed by the state claims is the same as the conduct giving rise to patent infringement, preemption results; it does not matter that the state claim is pleaded to obtain damages above and beyond those available from an infringement suit.⁴⁷⁴ The additional damages do not count as an extra element.⁴⁷⁵

In *Ultra-Precision Mfg. v. Ford Motor Co.*,⁴⁷⁶ the extra element was lacking. “If Ultra-Precision’s unjust enrichment claim was available, a would-be inventor need not satisfy any of the rigorous standards of patentability to secure a perpetual patent-like royalty under state law based on the use of an unpatented idea.”⁴⁷⁷

*Van Products Co. v. General Welding and Fabricating Co.*⁴⁷⁸ involved an employee of the plaintiff who took trade secrets to a competitor, allowing it to get a patent on the trade secreted invention. The court rejected a preemption argument in the subject suit for an injunction against practicing the patent and for disgorgement of profits.⁴⁷⁹ It found that the action was for abuse of confidence and that patent rights were only indirectly involved.⁴⁸⁰

The Pennsylvania Supreme Court rejected the idea that a patent gave the defendant a right to practice the invention, negating the starting point for federal question jurisdiction.⁴⁸¹

In *Darling v. Standard Alaska Production Company*,⁴⁸² the Alaska Supreme Court held that a common-law claim for appropriation of a shore protection system was preempted by patent law. The plaintiff claimed unjust enrichment from the defendant’s use of its unusual design for linked concrete

⁴⁷¹ *Id.* at *5 (citing *Dow*, 139 F.3d at 1475 (holding that intentional interference claim was not preempted because it had different elements)).

⁴⁷² *Id.* at 7.

⁴⁷³ *Id.* at 8 (citing *Ultra-Precision Mfg. v. Ford Motor Co.*, 411 F.3d 1369, 1377–78 (Fed. Cir. 2005)).

⁴⁷⁴ *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1334–35, 1337 (Fed. Cir. 1998) (applying conflict preemption rather than field preemption and remanding to determine if unfair competition claim depended on extra elements beyond patent preemption).

⁴⁷⁵ *Id.* at 1327–28.

⁴⁷⁶ *Ford Motor Co.*, 411 F.3d at 1381–82.

⁴⁷⁷ *Id.* at 1381.

⁴⁷⁸ *Van Products Co. v. General Welding and Fabricating Co.*, 213 A.2d 769, 771–72 (Pa. 1965).

⁴⁷⁹ *Id.* at 772–73.

⁴⁸⁰ *Id.* (Justice Cohen concurred, arguing that preemption by the federal patent laws divested the trial court of the power to restrict a patent’s use even through the patent was obtained by fraud and misrepresentation. *Id.* at 780–81 (Cohen, J., concurring)).

⁴⁸¹ *Id.* at 772.

⁴⁸² *Darling v. Standard Alaska Production Company*, 818 P.2d 677, 678 (Alas. 1991).

blocks to prevent beach erosion.⁴⁸³ The court applied *Sears, Kewanee Oil, CompcO, Bonito Boats*, and *Aronson* to conclude:

Here, Darling voluntarily disclosed his idea without obtaining an agreement for compensation. In such circumstances, enforcement of Darling's unjust enrichment claim would clearly hamper free exploitation of ideas which are in the public domain, without affecting the existing incentives inventors have for disclosure. Those inventors who require assurance of compensation before disclosure might be affected by whether Darling has a claim in unjust enrichment. Yet, those inventors can already protect themselves by patent, contract, or trade secret. Those who voluntarily disclose without rendering an assurance of compensation would be the only inventors affected by a ruling in Darling's favor. Therefore, it is unnecessary to rule in Darling's favor to further the federal policy of disclosure.⁴⁸⁴

The court was influenced by the fact that Darling had applied for a patent, rather than producing his innovation by contract.⁴⁸⁵

Darling is an example of a state law—a common-law claim—that restricts what federal patent law means to remain in the public domain.

Most breach of contract actions are not preempted. Some contractual terms may be preempted, however, as inconsistent with federal patent law.⁴⁸⁶ In *Boggild v. Kenner Products*,⁴⁸⁷ the U.S. Court of Appeals for the Sixth Circuit interpreted *Aronson v. Quick Point Pencil Co.*⁴⁸⁸ to extinguish rights to receive royalty payments for trade secret licenses once a patent issued on the information is covered by the trade secret. The court reasoned that agreements in which “royalties for patent rights are indistinguishable from those for other rights” are per se invalid.⁴⁸⁹

ii. Trade Secret Claims

If a broadened trade secret law grants protections that are too patent-like, then the trade secret law should be preempted. In other words, preemption

⁴⁸³ *Id.* at 678–79.

⁴⁸⁴ *Id.* at 682.

⁴⁸⁵ *Id.* at 682–83.

⁴⁸⁶ *Compare* *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (extend beyond life of patent), *with* *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262–66 (1979) (contract for royalties on novel product valid even though patent denied; contract does not prevent public access to invention or competition, but merely requires one supplier to pay inventor reduced royalty expressly linked to denial of patent).

⁴⁸⁷ *Boggild v. Kenner Products*, 776 F.2d 1315, 1319 (6th Cir. 1985) (reversing judgment for patent licensor for royalty payments).

⁴⁸⁸ *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979).

⁴⁸⁹ *Boggild*, 776 F.2d 1315, 1319 n.5.

should result if the scheme of rights, privileges, and powers associated with trade secrets is too similar to that associated with patents.

Patent law grants the patent holder the right to exclude everyone from making, using, or selling the patented invention for twenty years.⁴⁹⁰ The public has a correlative duty not to make, use, or sell the invention for the same term.⁴⁹¹ Patent law also grants to the public a right to know how to manufacture the invention, and it imposes upon the holder a duty to disclose how to manufacture it.⁴⁹² Patent law grants the holder the privilege to exploit her invention, and the public has a correlative no-right to exploit the invention.⁴⁹³ Patent law grants the holder the power to transfer the patent, and the public has a corresponding liability in that it cannot control to whom the holder transfers the patent.⁴⁹⁴

Trade secret law grants the right to exclude everyone from discovering the trade secret in certain ways—by corporate spying, by theft, or by breaking an express or implied agreement.⁴⁹⁵ The public has a correlative duty not to spy, steal, or break an express or implied agreement. Trade secret law grants the trade secret holder the privilege to exploit the innovation, and the public has a corresponding no-right to control how the trade secret holder exploits the innovation.⁴⁹⁶ Trade secret law grants the power to transfer the secret, and the public has a corresponding liability in that it cannot control to whom the trade secret holder transfers.⁴⁹⁷

Where patent law and trade secret law differ is in the rights they grant; the powers and privileges are similar and do not conflict. If a trade secret law granted the right to exclude everyone for a significant period, then the trade secret law would be preempted by patent law, because of the broader scope of the burdened class.

Present patent law grants a patent holder a right to exclude everyone for twenty years in return for disclosure, while trade secret law grants a right to exclude everyone forever, with no corresponding duty to disclose.⁴⁹⁸ The purpose of full disclosure of a granted patent is to activate a public privilege

⁴⁹⁰ 32 JAMES WM. MOORE ET AL., MOORE'S FEDERAL PRACTICE § 33.21 (2024).

⁴⁹¹ *Id.*

⁴⁹² *Id.*

⁴⁹³ *Id.*

⁴⁹⁴ *Id.*

⁴⁹⁵ *Analogic Corp. v. Data Translation, Inc.*, 358 N.E.2d 804, 806 (Mass. 1976) (federal patent policy under preemption framework of *Kewanee* does not preclude the issuance of a permanent injunction against the unauthorized use of a misappropriated trade secret; emphasizing mental state element when misappropriation arises out of confidential relationship); *see also* PERRITT, *supra* note 5, ch. 6–7 (regarding improper means).

⁴⁹⁶ Brian T. Yeh, *Protection of Trade Secrets: Overview of Current Law and Legislation*, CONG. RESEARCH SERV., R43714 (Apr. 22, 2016).

⁴⁹⁷ *Id.*

⁴⁹⁸ Camilla A. Hrdy & Mark A. Lemley, *Abandoning Trade Secrets*, 73 STAN. L. REV. 1, 10–11 (2021) (the duty to disclose may be imposed on the Patent Office as well as on the patent applicant).

to use a patent in a particular way; the public can study a disclosed invention and try to think of ways to improve upon it. A patent holder has a no-right to prevent the public from studying her invention.⁴⁹⁹ Disclosure is an interest concurrent to and derivative of the patent, like an easement is an interest concurrent to and derivative of a piece of real property.

The corresponding privileges with respect to a trade secret are, first, that the public can create or discover a trade secret independently, and second, reverse engineering. Trade secret law does not grant a right equivalent to the right to exclude everyone. Anyone is privileged to create or discover a trade secret innovation independently or through reverse engineering. Moreover, although a trade secret could last forever, it could also last for an hour. The trade secret holder has a no-right regarding time.

The differences in the privileges, in the scope of the burdened class, and in the secrecy requirement justify the conclusion that the bundles of rights representing patent and trade secret are sufficiently distinct that state trade secret law need not be preempted because it does not interfere with patent law.

In *Roboserve, Ltd. v. Tom's Foods, Inc.*,⁵⁰⁰ the U.S. Court of Appeals for the Eleventh Circuit held that federal law prohibits extending state trade secret protection to information in the public domain and extended this idea to hold that reverse engineering to be trade secret misappropriation also is preempted. "Once Tom's purchased a Stax machine from Roboserve, trade secret law could not prevent Tom's from dissecting that machine for any reason"⁵⁰¹ This holding is consistent with the suggested preemption analysis. Unlike protection of true trade secrets, protection of Roboserve's product features would remove information from the public domain.

In *Massachusetts Eye & Ear Infirmary v. QLT Phototherapeutics, Inc.*,⁵⁰² the court of appeals denied rehearing in a case involving trade secrets misappropriation and unjust enrichment, rejecting the defendant's patent preemption argument:

QLT's liability stems from its exploitation of information that it obtained in confidence, pursuant to a confidential disclosure agreement, and received permission to disclose through offers of compensation—not from published articles or presentations at ophthalmology conferences. Thus, QLT's liability flows from its less

⁴⁹⁹ *Kewanee*, 416 U.S. at 480–81.

⁵⁰⁰ *Roboserve, Ltd. v. Tom's Foods, Inc.*, 940 F.2d 1441, 1445 (11th Cir. 1991) (reversing denial of JNOV because trade secret claims were preempted).

⁵⁰¹ *Id.* at 1455 (citing *Monumental Props. of Ga., Inc. v. Frontier Disposal, Inc.*, 282 S.E.2d 660, 663 (1981)).

⁵⁰² *Massachusetts Eye & Ear Infirmary v. QLT Phototherapeutics, Inc.*, 559 F.3d 1 (1st Cir. 2009), *reh'g denied*, 552 F.3d 47 (1st Cir. 2009).

than savory business practices rather than its reliance on public domain sources of information. This is not the stuff of preemption.⁵⁰³

The defendant obtained and used the plaintiff's confidential information under a non-disclosure agreement before the information became public incident to a patent application.⁵⁰⁴

In *Trustees of Columbia University v. NortonLifeLock, Inc.*,⁵⁰⁵ the district court held that a conversion claim by an alleged co-inventor was preempted by patent law because it turned on an issue of inventorship under the patent statute.

iii. Bad Faith Assertion of Patents

In *Puritan Medical Products Company LLC v. Copan Italia S.p.A.*,⁵⁰⁶ the Maine Supreme Judicial Court held that the state's Bad Faith Assertion of Patent Infringement statute was preempted. "At the heart of it," the court said, "federal patent law protects a patent holder's good-faith assertion of patent infringement."⁵⁰⁷ It invalidated the application of Maine's law on the record before it but said, "A claim alleged pursuant to 14 M.R.S. § 8701 can survive federal preemption if the plaintiff presents sufficient evidence to allow a fact-finder to determine that the defendant's assertions of patent infringement were both objectively baseless and made in subjective bad faith."⁵⁰⁸

Puritan Medical Products is an example of a state law that interferes with the rights granted by federal patent law.

In *Reck-N-Rack LLC v. Just Encase Products Inc.*,⁵⁰⁹ the district court held that a claim under Wisconsin's patent trolling statute was preempted by federal patent law. It dismissed the complaint for failure to state a claim.⁵¹⁰ The plaintiff had claimed that the defendant had falsely accused it of patent infringement.⁵¹¹ The court held that the state law conflicted with the right, under federal law, to sue for patent infringement and to notify potential infringers of the consequences of infringement.⁵¹² Only if such notice was

⁵⁰³ *Id.* at 3 (citations omitted).

⁵⁰⁴ *Id.* at 2–3.

⁵⁰⁵ *Trs. of Colum. Univ. v. NortonLifeLock, Inc.*, 580 F. Supp. 3d 236, 276–77 (E.D. Va. 2022).

⁵⁰⁶ *Puritan Medical Products Company LLC v. Copan Italia S.p.A.*, 188 A.3d 853, 862 (Me. 2018).

⁵⁰⁷ *Id.* at 858 (citations omitted).

⁵⁰⁸ *Id.* at 862–63 (citing *Globetrotter Software, Inc. v. Elan Comput. Grp., Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004); *800 Adept, Inc. v. Murex Sec., Ltd.*, 539 F.3d 1354, 1370 (Fed. Cir. 2008)).

⁵⁰⁹ *Reck-N-Rack LLC v. Just Encase Prods. Inc.*, 649 F. Supp. 3d 734, 737 (E.D. Wis. 2023).

⁵¹⁰ *Id.* at 740.

⁵¹¹ *Id.* at 736–37.

⁵¹² *Id.* at 739.

given in bad faith and was objectively baseless could state-law liability result.⁵¹³

But in *NAPCO, Inc. v. Landmark Tech. A, LLC*,⁵¹⁴ the district court held that the North Carolina Abusive Patent Assertions Act was not preempted by patent law. It held that the specific requirements that state law imposed with respect to demand letters were not inconsistent with the more general requirements of federal law that bad faith assertion of infringement be supported by subjective and objective evidence.⁵¹⁵ This is questionable reasoning. The overlap of the state statute and federal law on bad faith was nearly perfect and differed only in detail.

The *Puritan Medical*, *NAPCO*, and *Reck-N-Rack* cases illustrate patent preemption analysis based on a search for distinct elements in the state law in question.

iv. Contracts v. Patents as Source of Right

Whether contracts or patents are pleaded as the source of right makes all the difference in the application of federal or state law. The Federal Circuit addressed the choice of law question in *Board of Trustees of Leland Stanford Junior University v. Roche Molecular Systems, Inc.*⁵¹⁶

“[T]he question of who owns the patent rights and on what terms typically is a question exclusively for state courts.” However, this rule has exceptions: the question of whether contractual language affects a present assignment of patent rights or an agreement to assign rights in the future is resolved by Federal Circuit law. “Although state law governs the interpretation of contracts generally, the question of whether a patent assignment clause creates an automatic assignment or merely an obligation to assign is intimately bound up with the question of standing in patent cases. We have accordingly treated it as a matter of federal law.”⁵¹⁷

V. GATHERING INTELLIGENCE

When employers or employees have a falling out and start arm wrestling over intellectual property, they almost always are surreptitious about their

⁵¹³ *Id.* at 739–40.

⁵¹⁴ *NAPCO, Inc. v. Landmark Tech. A, LLC*, 555 F. Supp. 3d 189, 211–12 (M.D. N.C. 2021).

⁵¹⁵ *Id.* at 210–12.

⁵¹⁶ *Board of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832 (Fed. Cir. 2009).

⁵¹⁷ *Id.* at 841 (alteration in original) (citations omitted).

conduct. The wronged party may not discover for months or years about the wrongful conduct on the other side. Accordingly, a good intellectual property management strategy by inventors and potential assignees and their employers makes use of numerous sources of intelligence that might reveal questionable activity. Patents and published patent applications are reported in the Patent Gazette, which is issued weekly on the web.⁵¹⁸ Anyone with the number of an issued patent or published patent application can obtain a copy on a USPTO website⁵¹⁹ or on Google Patents.⁵²⁰

Electronic surveillance of employees, especially of those working with sensitive information, is common. Pattern recognition software is deployed on employer networks to detect intrusions, and the search criteria usually can be modified without too much difficulty to flag suspicious communications across the network, such as those involving large file transfers differing from the usual pattern of traffic for a particular employee, or those using keywords. “Patent” and “trade secret” are not useful because so much legitimate communication involves use of those words. But words and phrases indicating stealth, lack of authority, revenge, and trickery are more useful. An employer’s monitoring of its own email and Internet-access resources in this fashion does not violate the federal Wiretap⁵²¹ or Stored Communications Act⁵²² because both have express privileges shielding monitoring of a provider’s own systems.⁵²³ Moreover, assuming an employer has provided employees with appropriate notice, employees have no reasonable expectation of privacy in what they send or receive through work computer systems that would support state-law assertions of invasion of privacy.

Social media are valuable sources of intelligence. Employers can check the postings of employees involved in sensitive development areas. Such monitoring can be done without aggressive efforts to intrude into private spaces, merely by looking at public posts on Facebook or X, or by befriending targets on those services.

Often, the most useful intelligence sources are informal word-of-mouth by current and former employees. Employees about to leave for employment elsewhere and employees starting their own enterprises are likely to brag

⁵¹⁸ *Official Gazette for Patents*, U.S. PAT. & TRADEMARK OFF., <https://www.uspto.gov/learning-and-resources/official-gazette/official-gazette-patents> [https://perma.cc/XH5K-77YM].

⁵¹⁹ *Patent Public Search Basic (PPUBS Basic)*, U.S. PAT. & TRADEMARK OFF., <https://ppubs.uspto.gov/pubwebapp/static/pages/ppubsbasic.html> [https://perma.cc/Y4XP-HSGW].

⁵²⁰ GOOGLE PATENTS, <https://patents.google.com/> (last visited Sep. 11, 2024).

⁵²¹ 18 U.S.C. § 2511.

⁵²² *Id.* § 2701.

⁵²³ *Id.* § 2701(c)(1). An employer is the provider of the wire or communications service used by its employees; 18 U.S.C. § 2511(1)(e) (similarly prevailing interceptions by provider of service necessarily incident to protection of rights of provider).

about it, and employers should be listening to coffee- and lunch-break gossip and cocktail party conversation, so they pick up on the bragging.

Employees can similarly use word-of-mouth and employer publicity to keep tabs on their employers' IP activities that may affect them.

Once a lawsuit is begun, the scope of civil discovery in federal court in most state courts is very broad. It allows depositions, interrogatories, request for production of documents for any information that might be relevant to the claims in the lawsuit.

Information also is available through criminal investigation which might occur under the DTSA or similar state statutes there, the one party would go to the FBI, the U.S. Attorney, or the local police or prosecutor and try to persuade those authorities to begin a criminal investigation of the suspected wrongdoer. The authorities have available search warrants and subpoenas to aid their investigation. But most of them are unlikely to disclose the results of their investigation outside their agency, although sometimes complaining witnesses are given access to investigations, especially if they have good relations of a long-standing character with the law enforcement agencies.