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Discussion After the Speeches of Mr. Schwab and Mr. Erickson

QUESTION, Mr. Fay: It appears that the basic, conservative copyright lawyer is just appalled by cases regarding computer programs, especially the structure, sequence and organization and the look and feel standards, and is accepting it very reluctantly. What do you sense is going to be the future of that body of law?

ANSWER, Mr. Schwab: I think look and feel standards will be adopted. They are certainly more frustrating to people, because often judges decide these cases on matters that seem either foolish or inconsistent to people with technology-based backgrounds. But the movement is clearly towards protection, and the look and feel standards will be adopted.

Organization, structure and sequence, which is easier to establish than look and feel, is already in place within the Third Circuit and will probably be adopted throughout the circuit courts. It is unfortunate that we have to have these matters decided by judges on certain facts as opposed to having legislation protecting it. Not only do you get conflict between circuits, but this also makes it difficult for the lawyer to give certainty to a client.

We recently filed a look and feel and a structure, organization and sequence copyright in the middle of a lawsuit because of a new theft that we discovered. We said, "The infringement was alleged, the theft is clear." The copyright office called back and said, "We don't understand this stuff. We want these particular words." So we filed the words that they required in order to issue the copyright. They would not accept look and feel, they would not accept structure, sequence and organization, but they issued the patent and we litigated on structure, sequence and organization.

I think the trend will be toward more protection because the court wants to encourage investment. But for now it puts the practitioner in a difficult situation when trying to advise clients as to what is protected and what is not. If you have people who are starting a new business and want advice concerning what they can do and cannot do, it is extremely frustrating because there is no clear bright line.

QUESTION, Professor King: What about the duration of noncompetition agreements? Could you compare the United States with some of the other major countries?

ANSWER, Mr. Schwab: I generally recommend that clients have a two year covenant not to compete. Apparently decisions have not found a covenant not to compete of two years' duration too long. One year is

also acceptable. A covenant for more than two years may encounter difficulty in some states. It would be an unusual situation where you would need more than two years' protection.

A two year duration is usually coupled with a tolling provision, which tolls the covenant during the period of any breach. This guarantees a full two years. So if it takes you several months to get an injunction, you provide in the contract that the injunction begins not at the date the person leaves, but at the date the injunction issued and that will guarantee that you get the full benefits of your bargain.

QUESTION, Dean McNiven: First, does the *Duluth v. Triangle* case discuss Triangle Industries' attempt to move out of Duluth after getting a number of local and city tax abatements and grants, and the huge litigation over closing them?

Second, are there any cases involving a university due to the growing tendency of universities to take patents and commercialize them as part of their income? Are there any cases involving university professors or technicians as employees?

ANSWER, Mr. Erickson: I am not familiar with the matter in Duluth.

As to the other, I do not have that much involvement with the university environment other than to be able to state that the professors are employees of the university.

COMMENT, Dean McNiven: There is a question of ownership of intellectual property, which differs from university to university. There are terrible problems with this, both in Canada and the United States. More so in the United States because the United States is becoming more aggressive in pursuing patents and trying to commercialize them as an alternate form of income.

COMMENT, Mr. Erickson: I do not think there is any blanket answer. Any arrangements that our organization might have with the university are placed in the contract.

COMMENT, Mr. Schwab: We represent both Carnegie-Mellon University and the University of Pittsburgh. We have devised policies for both of them in that regard and they are different policies, so it is a common problem.

Usually a contract regarding ownership is entered into with the faculty, sometimes with each member, sometimes through the faculty senate. This is a mixed problem, because in many situations the university gets the people to come to the university by allowing them to use the university's facilities for personal use one day a week as part of their compensation.

One of the universities has a policy that if the faculty member wants to use what they are developing at the university for their own company, they have to go through a procedure to get a release document. It is not uncommon in these situations for the company to be formed and for the

university to own a certain percentage of that company. It is also very common for the university to invest in the company.

Sometimes there are some very pleasant synergisms, but some fairly ugly fighting also occurs. At times people have been locked out of their labs and had to rent facilities elsewhere because they were not willing to agree to what the university administration thought was a fair deal.

COMMENT, Dr. Strub: Europe also has this diversity of rules if one is working in a university and invents something. It has been our observation that the countries with rules most favorable to the inventor are not necessarily the most inventive.

QUESTION, Professor Edwards: In a university context, sometimes employees run the risk as to whether the employers, in this case the university, really want to pursue the patent application and the expense associated with it. The faculty member may have more interest than the university in pursuing it.

Is this a problem that arises in the business context with an inventor who sees the importance of the matter more than the employer does? Is this usually negotiated, or would it be included in agreements?

ANSWER, Mr. Erickson: This certainly happens and is one of the problems in the corporate world. When patents are involved, the problem is magnified. If the idea is not pursued or is not being patented the employee will get frustrated and oftentimes would prefer to go off on his own. This is a real problem and corporations do not want to encourage it. If one person does it, then somebody else will discover personal advantages in projects, whether they have any corporate advantage in the end.

COMMENT, Professor Edwards: This problem arose at our university, but it was covered in a contract with the university. One of the policies of the university is a complete patent policy which is reviewed every year. It deals with the faculty members, their rights participation and royalties or other benefits that might be at issue.

COMMENT, Mr. Erickson: The corporate situation is one where the inventions of employees are locked within the framework of inventions directly or indirectly concerning the company's field of business, whether or not they are implemented or protected by patents. The inventions belong to the corporation. They are not defaulted to the employee just because they are not protected.

COMMENT, Mr. Schwab: The employee gets a financial benefit, so the employee has some interest if the invention is a patentable item. That makes it very difficult if the item is not pursued.

COMMENT, Mr. Mackey: As a matter of policy, some corporations in the United States do not ask for a non-competition clause or for any trailer clause, with the exception of a very small group that have employment contracts where compensation for those, among other

things, is spelled out. The average engineer does not have a non-competition provision written into the patent confidentiality agreement.

COMMENT, Mr. Schwab: The trend is toward putting in covenants not to compete. Some companies do not have covenants not to compete and may never use them because of cultural considerations. But the trend is to add them. Often the result is that a company will lose a group of employees when it first includes a non-competition clause. However, the trend clearly is to have covenants not to compete and major companies have them. Monsanto has covenants not to compete, and some of the Allied-Signal Companies have covenants not to compete.

Increasingly, as companies try to protect themselves through trade secret clauses and nondisclosure confidential information clauses, and are frustrated by having to prove what is protected and what is not, they tend to move toward covenants not to compete, which are clear and precise.

If enforcement increases, the trend will be to add these covenants. But many clients will not have them, because of their culture and as a matter of principle.

QUESTION, Mr. Fay: Denmark and Germany want the inventors to get some money. The inventor gets the money in his own name and not the corporate name. You seem to be taking an opposing view. Do inventors have any rights to protect themselves?

ANSWER, Mr. Erickson: By European standards, the North American employee is totally subservient to the corporation. The work that the employee does is for the corporation. It is the property of the corporation and he is compensated in one way or another. This compensation is either through salary treatment, if he is in the R&D environment, or by other treatment.

QUESTION, Mr. Fay: My point was that in Denmark and Germany, the inventor has an absolute right to get some portion of that corporate money for the value of the invention. If we harmonize our laws with Europe, where do you stand?

ANSWER, Mr. Mackey: That is not within the scope of any harmonization discussions that I am aware of.

COMMENT, Mr. Fifield: Around 1933 the German government took steps to compensate inventors which they thought would result in generation of even more technology than was necessary for the rebuilding the German economy at the time. Research directors who had to operate in Germany said this actually created an anti-innovative force. This was due to the secrecy involved and the fact that competing inventors did not want to share their ideas because they would have to share compensation under the formula.

There is also a recent International Labor Organization study which surveyed inventor compensation and recognition around the world. The

response from Germany was that innovation has never been generated because of this law.

COMMENT, Mr. Erickson: In Germany industry has become very innovative, but there are various ways in which the provisions of this law have been minimized.

COMMENT, Mr. Schwab: The formula for compensation turns out to be so small that if the inventors see it in most cases they do not recognize it. The average compensation in Germany is DM 500.

I recommend the Japanese system, with perhaps more of a nominal compensation as an honor or recognition in order to generate innovation, rather than the German system.

COMMENT, Mr. Fyfe: Coming back to the covenants not to compete, the noncompetition clauses in Canada, at least as applied to the ordinary engineers were not at issue.

COMMENT, Mr. Schwab: The covenant, even in the United States, would not be enforceable if it would bar the person from earning a living. But the question is, can the employee do what they want to do or must they make their living in an area not in competition with you.

COMMENT, Mr. Fyfe: Canadians, of course, would take the position that a highly developed expertise which is tied to the industry in which a person previously worked will not prevent the employee from competing.

COMMENT, Mr. Erickson: The only thing the employee cannot use, or cannot compete with, is an established trade secret, which narrows the scope.

COMMENT, Mr. Schwab: I am not directly involved in this, but I understand it exists. With very high-level employees, such as senior executives, because of their position of confidence and trust in the corporation, there may be a competition problem when they leave.

QUESTION, Mr. Bradley: In the middle of 1986, the U.S. government enacted a law which gives inventors a minimum of 50% financial interest in the royalties on patent inventions. It could go higher. Over time, wouldn't this possibly have some effect on how it is done in private corporations?

ANSWER, Mr. Erickson: I disagree. The royalty bearing license is in the minority situations in corporations. Certainly in this case, royalty-free patent cross-licenses are the order of the day. As for royalty trade, how does one measure the value of every patent for every employee who happens to be in a particular transaction? What about the use of the invention itself by the corporation? Is the corporation going to benefit from the product that is sold with various patents? It would be absolute chaos.

