

IN THE COURT OF COMMON PLEAS OF PHILADELPHIA COUNTY
FIRST JUDICIAL DISTRICT OF PENNSYLVANIA
CIVIL TRIAL DIVISION

INNAPHASE CORPORATION	:	July Term, 2003
	:	
Plaintiff,	:	No. 2807
	:	
v.	:	Commerce Program
	:	
MERIC OVERMAN,	:	
	:	Superior Court Docket No.
Defendant.	:	2886 EDA 2003

.....

O P I N I O N

Albert W. Sheppard, Jr., J.February 5, 2004

This Opinion is submitted relative to the appeal of this court's Order, dated September 11, 2003, denying Plaintiff's Petition for a Preliminary Injunction. For the reasons discussed, this court respectfully submits that its Order should be affirmed.

Background

Plaintiff Innaphase Corporation (“Innaphase”) filed a Petition for Preliminary Injunction to enforce a Non-Disclosure and Developments Agreement of May 29, 2001 (“Agreement”), which it had entered into with its former employee, defendant Meric Overman (“Overman”).

Innaphase is a Delaware corporation which develops, sells and consults on software applications and services to the Laboratory Information Management System (“LIMS”) market and the pharmaceutical market. Complaint, ¶¶ 1, 3. Mr. William Tobia¹ testified that Innaphase would generate approximately seventeen million dollars of revenue in 2003, and employs approximately eighty-five persons. Tr.², p. 58. As of July 2003, approximately eighty percent of Innaphase’s revenues were generated from the pharmaceutical market and twenty percent from the non-pharmaceutical market. Tr., p. 107.

LabWare is a corporation which also develops, sells and consults on software applications and services to the LIMS market and to the pharmaceutical market, as well as a broad spectrum of industries, such as food and beverage, petrochemical, chemical and industrial, environmental, metals, mining, forensics, contract services and tobacco. Pltf’s Ex. 2. As of September 2003, approximately seventeen percent of LabWare’s revenues were generated from the pharmaceutical market and eighty-three percent from the non-pharmaceutical market. Tr., p. 103.

¹ Mr. Tobia is the Executive Vice President and Chief Financial Officer of Innaphase.

² The cite “Tr.” refers to the transcript of the hearing held on September 11, 2003.

In May 2001, Innaphase hired Overman for the position of Director of Customer Implementation. Complaint, ¶ 7. As a condition of employment, Overman executed the Non-Disclosure and Developments Agreement. Complaint, Ex. A. In January 2002, Innaphase promoted Overman to the position of Senior Director for Customer Services. Complaint, ¶ 7. In November 2002, Innaphase again promoted Overman to the position of Vice President of Customer Services. Tr., p. 148; Complaint, ¶ 7. In this position, Overman supervised a team of deployment specialists who introduced software to clients' sites, adapted software to clients' needs and provided customer support. Tr., pp. 49, 149.

Prior to being hired at Innaphase, Overman had been employed by LabWare in Wilmington, Delaware for approximately five years. Tr., pp. 116, 138. In early June 2003, LabWare's Chief Executive Officer, Vance Kershner, contacted Overman, his former employee, with an offer of employment. Tr., pp. 178, 180; Pltf's Ex. 18. The compensation for the LabWare job does not depend on the number of customers which Overman recruits for LabWare. Tr., p. 187.

On July 8, 2003, Overman notified Innaphase that he was resigning to return to work at LabWare. Complaint, Ex. E. Overman's stated reason for his change of employers was to be closer to his family, and to have a one-way ten minute commute to LabWare rather than a one hour commute to Innaphase. Tr., pp. 63, 141.

The Agreement between Innaphase and Overman included an arbitration clause which provided that all employment disputes would be submitted to arbitration, and which waived the parties' right to litigation. Nevertheless, in July 2003, Innaphase filed

the subject Petition for Preliminary Injunction and a Complaint to enforce the Agreement.

Innaphase sought to preliminarily and permanently enjoin Overman from (1) working or consulting for LabWare and its corporate affiliates, (2) seeking or accepting employment with any *LIMS* competitor, (3) soliciting current or potential Innaphase customers and employees, (4) misappropriating Innaphase's trade secrets, (5) removing Innaphase's information or other property, (6) unfairly competing in violation of the Agreement. Innaphase sought a court order directing Overman to pay all profits wrongfully derived as a result of a breach of the Agreement, as well as compensatory damages, consequential damages, punitive damages and counsel fees.

On July 24, 2003, upon the plaintiff's application, this court issued a Special Injunction (TRO) to enjoin Overman from commencing work at Labware until further Order of the court. Innaphase posted a \$25,000 bond. After a conference with counsel and by an Order of July 30, 2003, the Special Injunction was continued until September 15, 2003 or until further Order of the court. The Order directed that the bond remain posted and that discovery be conducted as mutually agreed upon by counsel. A hearing was scheduled for September 11, 2003.

On August 12, 2003, Innaphase filed a Petition to Compel Arbitration (styled a Motion to Compel). On August 13, 2003, Overman filed an Answer to the Complaint and raised sixteen affirmative defenses. In response to Overman's Answer, on August 18, 2003, Innaphase filed Preliminary Objections. Subsequently, on September 2, 2003, Overman filed an Amended Answer, and on September 10, 2003, Innaphase filed a second set of Preliminary Objections.

On September 11, 2003, the court held a hearing on plaintiff's Petition for Preliminary Injunction and plaintiff's Petition to Compel Arbitration. Upon consideration of the evidence presented at the hearing and all matters of record, this court denied the Petition for Preliminary Injunction, vacated the Special Injunction which had been previously issued, and granted the Petition to Compel Arbitration.

Thereafter, Innaphase filed its Appeal of the court's denial of its Petition for Preliminary Injunction.

Discussion

In its appeal, Innaphase argues that the court abused its discretion in denying the preliminary injunction.

Pennsylvania law requires this court to apply a four-prong test to determine whether an injunction is warranted. The test, as set forth in Harsco Corp. v. Klein, 395 Pa. Super. 212, 576 A.2d 1118 (1990), places the burden of proof on the party requesting the preliminary injunction to show that injunctive relief:

- (1) . . . is necessary to prevent immediate and irreparable harm which could not be compensated by damages;
- (2) greater injury [will] result by refusing it than by granting it;
- (3) . . . properly restores the parties to their status as it existed immediately prior to the alleged wrongful conduct; and
- (4) the activity sought to be restrained is actionable and an injunction is reasonably suited to abate that activity.

Id. at 218, 576 A.2d at 1121, citing Blair Design and Construction Co. v. Kalimon, 366 Pa. Super. 194, 199, 530 A.2d 1357, 1359 (1987). The court must find all four elements of this rigorous standard in order to justify granting a preliminary injunction. Harsco, 395 Pa. Super. at 220, 576 A.2d at 1122, citing Rollins Protective Services Co., A Div. of Rollins, Inc. v. Shaffer, 383 Pa. Super. 598, 602, 557 A.2d 413, 415 (1989).

In its petition, Innaphase bases its argument that Overman should be enjoined from working at LabWare on the Agreement which provides at paragraph 4:

- (1) Confidentiality. Employee [Meric Overman] shall keep confidential, except as the Company [Innaphase Corporation] may otherwise consent to in writing, and not to disclose, or make use of except to employees of the Company who need to know such information for the purposes of their employment, at any time either during or for a period of 60 months subsequent to the term of this Agreement, any confidential information or trade secrets of the Company or of any third party which the Company is under an obligation to keep confidential, including information and knowledge pertaining to products and services offered, innovations, designs, ideas, plans, trade secrets, proprietary information, know-how and other technical information, advertising, marketing plans, strategies and systems, processes, software programs, projects, plans, proposals, distribution and sales methods and systems, sales and profit figures, customer and client lists, business plans, relationships with dealers, distributors, wholesalers, customers, clients, suppliers and others who have business dealings with the Company (such confidential information and trade secrets of and pertaining to the Company, collectively "Confidential information") which Employee may produce, obtain or otherwise acquire during his tenure with the Company, for any reason whatsoever, unless such information is in the public domain through no wrongful act of Employee. In furtherance of the foregoing covenant, and not by way of limitation of such covenant, and subject to the exceptions set forth therein, Employee agrees not to deliver, reproduce or in any way allow any such Confidential Information or any documentation relating thereto, to be delivered or used by any third parties.

- (2) Conflicting Employment/ Return of Material. During the term of this Agreement and for a period of 12 months thereafter, Employee shall not engage in any other employment, occupation, consulting or other activity relating to an endeavor that would be competitive, directly or indirectly, with any of the business activities of the Company under this agreement or which would otherwise conflict with his obligations to the Company under this Agreement. In the event of the termination of this Agreement for any reason, whatsoever, Employee agrees to promptly surrender and deliver to the Company, all records documents and data of any nature pertaining to any Confidential Information which Employee may produce or obtain during the course of this Agreement.

- (3) Covenant Not To Disclose. Employee acknowledges that his willingness to enter into the confidentiality and non-disclosure provisions set forth in this Section 4 was a material inducement to the Company to employ Employee. Each party hereto acknowledges that such party has carefully considered the nature and extent of the restrictions, rights and revenues conferred upon such party under this Agreement and acknowledges that the same are: (i) reasonable in time and territory; (ii) are designed to eliminate competition which otherwise would be unfair to the Company; (iii) do not stifle the inherent skill and experience of Employee and would not operate as bar to Employee's sole means of support; (iv) are fully required to protect the legitimate interest of the Company; and (v) do not confer a disproportionate benefit upon either party to the detriment to the other party. During the term of this Agreement and for a period of 60 months thereafter, Employee will not, on behalf of himself or on behalf of any other Person as an employee, proprietor, stockholder, partner, consultant or otherwise, provide, directly or indirectly, any of the Company's Confidential Information to any enterprise.

Agreement, ¶ 4(1)-(3).

The parties do not dispute the enforceability of the Agreement.³ Rather, they dispute whether enjoining Overman from working for LabWare is necessary to prevent immediate and irreparable harm to Innaphase. For its argument, Innaphase relies on two provisions in particular: (1) Overman's agreement to keep "confidential information and trade secrets" of Innaphase confidential for sixty months after the term of the Agreement, and (2) Overman's agreement to "not engage in any other employment . . . relating to an endeavor that would be competitive . . . with any of the business activities of [Innaphase]" for a period of twelve months after the term of the Agreement. Agreement⁴, ¶ 4(1)-(3).

³ The court notes, however, that paragraph 4(2) of the Agreement does not contain a limitation on geographic scope.

⁴ The Agreement is found at Exhibit A to the Complaint.

Confidentiality Provision

With respect to the confidentiality issue, Pennsylvania law permits an employer to protect its confidential information, but “[g]enerally, the information must be a particular secret of the employer, not a general secret of the trade, and must be of peculiar importance to the conduct of the employer’s business.” Bell Fuel Corp. v. Cattolico, 375 Pa. Super. 238, 258, 544 A.2d 450, 460 (1988), *app. denied*, 520 Pa. 612, 554 A.2d 505 (1989). At the hearing, Innaphase argued that Innaphase and LabWare have common customers, and that if Overman disclosed to LabWare his knowledge of Innaphase’s four software programs, Overman would divulge “confidential information and trade secrets” to the severe detriment of Innaphase.

The first software product which Innaphase argued will be prejudiced is called “Newton” and was to be launched in December 2003. Tr., p. 47. Mr. Tobia of Innaphase testified that Newton will compete directly with LabWare’s LIMS products. Tr., pp. 58, 60-61. Mr. Tobia further testified that “Mr. Overman was a key contributor to the design of the Newton,” as well as an enhancement to Newton, called “Integrator.” Tr., pp. 79, 96-97.

The record does **not** demonstrate, however, that Overman could rewrite the Newton code for LabWare. Mr. Richard Wagner, the product manager for Newton, testified that Overman did not write the code for Newton. Tr., pp. 48, 51. In addition, the record establishes that competition between Innaphase and LabWare relating to the Newton product is limited. Mr. Tobia testified that the Newton product is marketed to the pharmaceutical industry only. Tr., p. 103. Meanwhile, as of September 2003, only

seventeen percent of LabWare's revenues were generated from the pharmaceutical market and eighty-three percent from the non-pharmaceutical market. Tr., p. 103.

Innaphase's next software product which it contended will be harmed by Overman is named "LabManager." Innaphase purchased LabManager from the LAO division of Beckman-Coulter in July 2003. Tr., p. 114. Innaphase representatives, including Mr. Wagner, marketed the LabManager product at a User Group meeting in Las Vegas to which existing Innaphase clients were invited. Tr., pp. 41-42. Mr. Wagner testified that he became aware that LabWare representatives were also in Las Vegas at the time of the Innaphase meeting, at the same hotel as the Innaphase representatives, apparently trying to compete for the same customers. Tr., pp. 43, 113-114. Mr. Tobia testified that LabManager competes directly with LabWare's LIMS products. Tr., pp. 59-60, 65. In addition, while at Innaphase, Overman worked on the due diligence team for the purchase of the LabManager product. Tr., pp. 97-98.

This court submits that this evidence which Innaphase presented does not show that irreparable harm would result if Overman were not enjoined from working at LabWare. Innaphase's counsel admitted that Overman was not in Las Vegas at the time of Innaphase's Las Vegas meeting. Tr., p. 31. Mr. Wagner testified that he had no evidence which would indicate that Overman divulged information about the Las Vegas meeting, or the Newton or LabManager products to LabWare. Tr., p. 55. Moreover, Innaphase acquired the LabManager product from LAO, and the former LAO employees who were (are) completely knowledgeable regarding the LabManager product (and who did not

go to work for Innaphase) are not bound by any non-disclosure agreements. Tr., pp. 65-66. And, Innaphase's counsel stated that no patent was involved with respect to the LabManager product. Tr., p. 35. In essence, as Innaphase's counsel put it, "It's competition. . . by a competitor." Tr., p. 47. Competition alone, however, does not constitute irreparable harm.

The next software product whose confidential information Innaphase argued will be divulged by Overman is called "Galileo." Galileo was launched in June 2003. Tr., p. 78. Overman participated in the development of Galileo and its enhancements while at Innaphase. However, the evidence did not establish that Innaphase's business with respect to Galileo would be harmed by Overman's employment at LabWare. Overman testified that he knew "very, very little of Galileo." Tr., p. 165. In addition, Mr. Tobia did not know whether LabWare had a product which competed with Galileo. Tr., p. 110. Moreover, the record did not indicate that Galileo had particular trade secrets because Innaphase's counsel stated that the product did not have any copyrights or patents. Tr., p. 38.

Finally, Innaphase contended that its software product called "Watson" will be harmed by Overman's employment at LabWare. Overman helped design an enhancement to Watson, called "Retriever." Tr., pp. 85, 158. Retriever was to be launched in September 2003. Innaphase argued that if Overman discloses his confidential information about Watson and its enhancements to LabWare, then LabWare will have ability to develop the same product. Tr., p. 37. Other

than this allegation, however, the record is devoid of any proof that an injunction is necessary to protect Watson or its enhancements.

Moreover, the record does not contain any proof that Overman has divulged or will divulge Innaphase's confidential information or trade secrets. Mr. Wagner and Mr. Tobia both testified that they had no information whether Overman had made any disclosures. Tr., pp. 55, 67. Mr. Tobia also testified that he could not state that Overman had downloaded or otherwise taken any confidential information from Innaphase. Tr., p. 88. Overman testified that he had not disclosed any of Innaphase's confidential information, including marketing and pricing information or migration plans, and would not do so. Tr., pp. 142, 148, 166-67, 183, 190. Furthermore, Overman testified that he had made it clear to Mr. Kershner at LabWare that he was obligated to not divulge any Innaphase confidential information. Tr., p. 143.

Further, the evidence does not establish that the information Overman acquired regarding LIMS products while employed at Innaphase is necessarily confidential information. Indeed, Overman had worked at LabWare for approximately five years prior to working at Innaphase (for approximately two years). Tr., pp. 116, 138, 159. In addition, some of Overman's knowledge is, in fact, public knowledge. For example, Innaphase publishes its customers on its website. Tr., p. 82.

Based upon a fair analysis of the totality of the evidence, the record does not support a finding that enjoining Overman from working at LabWare was necessary to prevent immediate and irreparable harm resulting from the

disclosure of confidential information and trade secrets which could not be compensated by damages. In addition, this court deemed Overman to be a credible witness, and believes that he will comply with the confidentiality agreement with Innaphase.

Provision Prohibiting Employment Relating to an Endeavor
That Would be Competitive With Innaphase Business Activities

Aside from the issue of confidentiality, Innaphase focused on a second issue in the Agreement which states that Overman may “not engage in any other employment . . . relating to an endeavor that would be competitive . . . with any of the business activities of [Innaphase].” A comparison of Overman’s jobs at Innaphase and LabWare provides some insight. As Vice President of Customer Services at Innaphase, Overman supervised a team of deployment specialists, that is, personnel who introduced software to clients’ sites, adapted software to clients’ needs and provided customer support. Tr., pp. 49, 149. At LabWare, Overman was offered a “Technology Transfer” role which would require him to inform customers about LabWare technology, as well as provide customer feedback to LabWare’s product developers. Pltf’s Ex. 18 (Bates No. 000247).

Innaphase argued that both of these jobs require substantial customer interaction and that if Overman meets with customers on behalf of LabWare with his “understanding [of] what the company’s [Innaphase’s] needs were, [his] understanding the LIMS marketplace, [his] understanding [of] how we built Newton specifically to target the specific work flow,” Innaphase’s ability to compete would be severely prejudiced. Tr., pp. 73-74.

On the other hand, Overman testified that his position at LabWare would not relate to an endeavor which would be competitive with Innaphase's business activities because he would be dealing only with information relating to LabWare's products, not Innaphase's products. Overman testified that in his new position he would use "LabWare information to transfer knowledge from Labware to the customer" and "listen[] to the customer's request . . . and transfer[] that back to the developing team who would actually write the code." Tr., pp. 146-147. Overman further testified that he does not have the technical knowledge and ability to advise LabWare how to program code for its products the way Innaphase's products are written. Tr., pp. 147-48. Based on this testimony and the documents of record, the court did not find sufficient evidence to demonstrate that enjoining Overman from working at LabWare was necessary to prevent immediate and irreparable harm which could not be compensated by damages.

It bears repeating that although Innaphase and LabWare compete to a certain extent for market share of the pharmaceutical market, LabWare generates approximately eighty-three percent of its revenues from non-pharmaceutical customers. Thus, the competition between the two companies for the pharmaceutical industry is limited. By contrast, enjoining Overman from working at LabWare for twelve months would cause him great personal injury. Therefore, even if Innaphase does experience harm, this court could not find sufficient evidence to conclude that greater injury would result to Innaphase by refusing to enjoin Overman from working at LabWare than by granting it.

Innaphase's Petition to Compel Arbitration Was Granted

Despite filing a Petition for Preliminary Injunction (and the accompanying requisite Complaint) in this court, Innaphase also filed a Petition to Compel Arbitration. In response, Overman argued that by filing this action in this venue, Innaphase waived its right to require that the matter be arbitrated. This court found in favor of Innaphase on this Petition, believing that the matter should be arbitrated.⁵

In Pennsylvania, the standard to determine whether an issue must be submitted to arbitration “depends upon (1) whether the parties entered into an agreement to arbitrate, and (2) whether the dispute falls within the scope of that agreement.” Henning v. State Farm Mut. Auto. Ins. Co., 795 A.2d 994, 996 (Pa. Super.) (citations omitted), *app. denied*, 570 Pa. 687, 808 A.2d 572 (Pa. 2002). In addition, “the scope of arbitration is determined by the intention of the parties as ascertained in accordance with the rules governing contracts generally.” Id. (citations omitted). Resolution through arbitration is favored to promote swift and orderly disposition of claims. Elkins & Co. v. Suplee, 371 Pa. Super. 570, 574, 538 A.2d 883, 885 (1988).

Here, the parties agreed to arbitrate all disputes arising from the Agreement, other than disputes within the jurisdiction of small claims court:

Any disputes between Employee and the Company arising out of this Agreement, violations of foreign, federal, state and/or local statutes, breach of any contract or covenant (express or implied), tort claims, violation of public policy or any other alleged violation of Employee's statutory, contractual or common law rights (and including claims against the Company's officers, directors, employees or agents),

⁵ Although the court's grant of Innaphase's Petition to Compel Arbitration is not the subject of Innaphase's appeal, this last section provides an explanation of the procedural circumstances of the case. At the same time that Innaphase petitioned the court for a preliminary injunction, Innaphase also petitioned the court to direct the case to arbitration. See Tr., p. 63. Later, once the court had resolved the two petitions, Innaphase argued in its Emergency Application for Stay Pending Appeal that the court should have sent the case to arbitration but should not have decided the Petition for Preliminary Injunction. But, Innaphase never did withdraw its Petition for Preliminary Injunction, and it remained pending and ripe for decision until the court entered its September 11, 2003 Order.

which Employee or other party are unable to resolve through direct discussion, regardless of the kind or type of dispute (excluding claims of any solely monetary dispute within the jurisdiction of small claims court) shall be decided exclusively by conclusive and binding arbitration in the State of Pennsylvania in accordance with the American Arbitration Association's ("AAA") Employment Dispute Resolution Rules (the "Rules"). Except for those claims specifically excluded from coverage under this arbitration provision, Employee and the Company hereby waive the right to pursue any claims through civil litigation outside the arbitration procedures of this provision, unless otherwise required by law.

Agreement, ¶ 7.

Innaphase and Overman entered into an agreement to arbitrate. Agreement, ¶ 7. Further, the court agrees with Innaphase that its claims arise out of the Agreement, and therefore, the dispute falls within the scope of the agreement to arbitrate. Nothing in the record indicates that the parties did not intend to arbitrate this type of dispute. Thus, by Order dated September 11, 2003, this court held that the plaintiff had not waived its right to arbitration and directed that the parties participate in arbitration proceedings pursuant to the parties' Agreement.

Conclusion

For the reasons stated, it is respectfully submitted that this court's Order denying Plaintiff's Petition for Preliminary Injunction should be affirmed.

BY THE COURT,

ALBERT W. SHEPPARD, JR., J.