IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

ENVIRON PRODUCTS, INC., Plaintiff, v. ADVANCED POLYMER TECHNOLOGY INC. and LEO J. LeBLANC, Defendants.	Civil Action No. 95-7209

EBW, INC., Plaintiff, v. ENVIRON PRODUCTS, INC., and MICHAEL C. WEBB, Defendants.	Civil Action No. 96-4994

Gawthrop, J. June , 1997

M E M O R A N D U M

Before the court in this action relating to U.S. Patent No. 5,297,896 is Environ Products, Inc.'s Motion for Partial Summary Judgment. Environ contends that a Stock Redemption Agreement's release provision bars the majority of claims by Advanced Polymer Technology, Inc., Leo J. LeBlanc, and EBW, Inc. In response, EBW, Mr. LeBlanc, and Advanced Polymer Technology argue that because of Environ's fraudulent misrepresentations and omissions at the time the agreement containing the release was signed, the release is not binding. In the alternative, they argue that if the release is valid, it should bar all claims

against them. Upon the following reasoning, I shall grant Environ's motion in part and deny it in part.

I. Background

U.S. Patent No. 5,297,896 ("the '896 patent") lies at the heart of this legal controversy. This patent is for an environmentally safe underground piping system, using a flexible secondary containment system. Michael C. Webb is the inventor of record of the '896 patent, of which Environ Products, Inc. is the assignee. Mr. Webb also is an officer of Environ.

Leo J. LeBlanc has challenged Mr. Webb's claim of inventorship. Mr. LeBlanc is an officer and director of both Advanced Polymer Technology, Inc. ("APT"), and EBW, Inc., APT's purported predecessor-in-interest. Mark T. Hoofman, now APT's President, formerly was an EBW employee.

In a Stock Purchase Agreement dated December 21, 1990, EBW, Mr. Hoofman, Mr. Webb, and others, purchased stock in Environ, then known as Aveda Manufacturing Corporation. By that same agreement, EBW gained the right to designate two of the four directors on Environ's Board. Mr. LeBlanc and Mr. Hoofman thus became directors of Environ. At this same time, EBW and Environ allegedly created a joint enterprise to develop, manufacture, and sell products related to fluid storage and distribution. In connection with this joint enterprise, EBW claims to have disclosed to Environ proprietary information regarding a flexible secondary containment system. In March, 1992, unknown to Mr.

LeBlanc or Mr. Hoofman, Mr. Webb filed an application with the Patent and Trademark Office ("PTO") for what would become the '896 patent.

In 1992, EBW and Environ decided to end their affiliation. Employing the assistance of financial and legal consultants, the parties undertook months of negotiation and evaluation of the price at which Environ should repurchase its stock. Through a Stock Redemption Agreement dated June 8, 1992, Environ repurchased its shares from EBW, Mr. LeBlanc, and Mr. Hoofman. EBW, APT, and Mr. LeBlanc (collectively, "the EBW parties") now maintain that the share price would have been higher had they known of Mr. Webb's pending patent application.

The Stock Redemption Agreement contains the following release provision (¶ 11):

> **Release.** The parties hereto hereby release, acquit and forever discharge each other, including agents, attorneys, servants, stockholders, directors, officers, heirs, executors, administrators, successors and assigns, from any and all claims, causes of action, demands, right and damages whatsoever, known or unknown, which they now have or could have had against each other from the beginning of time to the date of this Agreement, excepting only those rights and obligations explicitly set forth herein and in the Consulting Agreement. No party has relied upon any representation of any kind which is not specifically set forth herein or in the Consulting Agreement, and all parties hereby expressly waive any prospective reliance upon or claim concerning any omission of fact by any other party.

In addition, paragraph 7 of the Agreement provides:

> **Full Disclosure.** No statement, representation or warranty by Environ in this Agreement, or in any document or instrument delivered to or to be delivered to EBW or Hoofman pursuant hereto, or in connection

> with the transactions contemplated hereby, contains or will contain any untrue statement of material fact or omits or will omit a material fact necessary to make the statements contained herein or therein not misleading.

In November, 1995, Environ Products, Inc. filed Civil Action No. 95-7209 against APT and Mr. LeBlanc, for infringement of the '896 patent, federal and state unfair competition, conversion, unjust enrichment, and breach of fiduciary duty. APT and Mr. LeBlanc asserted several counterclaims, the majority of which are based upon the alleged joint enterprise.[1] In February, 1996, EBW sued Environ in federal district court in Michigan. Most of EBW's claims, too, are based upon the joint enterprise.[2] The second action, Civil Action No. 96-4994, was transferred to this court, and consolidated with the first.

Because the alleged joint enterprise predates the Stock Redemption Agreement, Environ maintains that the agreement's release bars all claims and counterclaims based upon that enterprise. Thus, Environ seeks summary judgment on all

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1. Specifically, APT and Mr. LeBlanc have counter-claims for Federal and State Unfair Competition (Counts One and Two), Conversion (Count Three), Unjust Enrichment (Count Four), Breach of Fiduciary Duties (Count Five), Fraud on the PTO (Count Six), Fraud (Count Seven), and Correction of Inventorship (Count Eight).

2. EBW alleges Federal and State Unfair Competition (Counts I and II), Conversion (Count III), Unjust Enrichment (Count IV), Breach of Fiduciary Duties (Count V), Fraud on the PTO (Count VI), Correction of Inventorship (Count VII), Breach of Contract (Count VIII), Fraud on Shareholders and Directors (Count IX), Breach of Employment Agreement (Count X), Declaratory Judgment of Patent Invalidity (Count XI), and Declaratory Judgment Determining the Existence of the Joint Enterprise (Count XII).

claims by the EBW parties except fraud on the PTO, correction of inventorship, and declaratory judgment of patent invalidity. The EBW parties counter that the release is invalid because Mr. Webb fraudulently induced them to sign by withholding material information about his pending patent application. They also maintain that it would be inequitable to permit Environ and Mr. Webb to benefit from their fraudulent omission. In the alternative, assuming that the release is valid, they contend that it should apply to APT, and that it should bar all remaining claims relating to the '896 patent.

II. Standard of Review

Summary judgment is proper "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c). Unless evidence in the record would permit a jury to return a verdict for the non-moving party, there are no issues for trial, and summary judgment becomes appropriate. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). In considering a motion for summary judgment, a court does not resolve factual disputes or make credibility determinations, and must view facts and inferences in the light most favorable to the party opposing the motion. Siegel Transfer, Inc. v. Carrier Express, Inc., 54 F.3d 1125, 1127 (3d Cir. 1995). The party opposing the summary

judgment motion must come forward with sufficient facts to show that there is a genuine issue of material fact. Celotex Corp. v. Catrett, 477 U.S. 317 (1986).

III. Discussion

A. Validity of Release

The parties agree that Pennsylvania law governs the release at issue. Under Pennsylvania law, a general release binds the signatories, even as to claims unknown at the time of the release's execution if that was its intended scope. See, e.g., Total Containment, Inc. v. Environ Products, Inc., 921 F. Supp. 1355, 1414-15 (E.D. Pa. 1995), aff'd in part, vacated in part, 106 F.3d 427 (Fed. Cir. 1997). In general, clear language in releases "negotiated by commercial parties with substantially equal bargaining power should be construed to mean what it says." Kaplan v. First Options of Chicago, Inc., 189 B.R. 882, 895 (E.D. Pa. 1995). In Total Containment, the parties signed a Settlement Agreement in which they agreed to release each other from all claims, known or unknown, which they could have had against each other up to the date of the agreement. 921 F. Supp. at 1414. Finding this release's language "clear and comprehensive," the court concluded that TCI had released Mr. Webb from liability for any and all acts that occurred before the signing of the agreement. The release in this case contains similarly sweeping language: the signatories released each other "from any and all

claims . . . known or unknown, which they now have or could have had against each other . . . ."

The EBW parties, however, contend that the release provision is invalid because they were fraudulently induced to enter into the Stock Redemption Agreement. Generally, releases will not bind the parties if they are executed and procured by fraud, duress, accident, or mutual mistake. See, e.g., Three Rivers Motors Co. v. Ford Motor Co., 522 F.2d 885, 892 (3d Cir. 1975). Proof of fraud must be "clear, precise and indubitable." Nocito v. Lanuitti, 402 Pa. 288, 167 A.2d 262, 263 (1961). Here, the EBW parties maintain that the Agreement negotiations would have proceeded differently had Environ and Mr. Webb disclosed the existence of the pending application for the '896 patent.

Assuming, without deciding, that Environ and Mr. Webb did fraudulently procure the release, EBW and Mr. LeBlanc, had two options. When a release is procured by fraud, the party may either (1) disaffirm the release and offer to return the consideration, or (2) affirm the voidable contract and waive the fraud. See, e.g., Nocito v. Lanuitti, 402 Pa. 288, 167 A.2d at 263. Failure to tender back the consideration after discovery of the alleged fraud constitutes an affirmance of the contract. Id. Because EBW and Mr. LeBlanc did not offer to return the consideration when they learned of the patent application, they waived any fraud claim and affirmed the agreement with its release provision. At this late date, long after learning of Mr. Webb's patent application, they cannot contest the validity of

this agreement. Nor may they maintain their claim for fraud in the negotiation for the Stock Redemption Agreement (Count Seven).

Further, the alleged fraud falls squarely within the ambit of the release. The release specifically states: "all parties hereby expressly waive any prospective reliance upon or claim concerning any omission of fact by any other party." This language is consistent with the full disclosure provision, which requires that any statement made by Environ not be materially false or misleading by omission. The EBW parties have not identified any materially false or misleading statement. Rather, the EBW parties claim an omission of fact: the non-disclosure of the pending patent application.

The EBW parties next argue that it would be inequitable to allow Environ and Mr. Webb to knowingly violate the law, by breaching their duty to disclose, and then protect themselves by negotiating a release provision. The purported duty to disclose, however, is premised upon an unsigned employment agreement. Further, if EBW and Mr. LeBlanc had wished to reserve any claims for breach of fiduciary duties, the release easily could have been drafted to so provide. In short, I find that the release is valid, and binding upon the signatories.

B. Scope of Release

The EBW parties also question the scope of the release. They maintain that the release bars all claims relating to the '896 patent because Mr. Webb had common law rights in his

invention at the time that the Stock Redemption Agreement was signed. It is true that "the act of invention vests an inventor with a common law or `natural' right to make, use and sell his or her invention absent conflicting patent rights in other . . . ." Arachnid, Inc. v. Merit Indus., Inc., 939 F.2d 1574, 1578 (Fed. Cir. 1991). Environ's claims, however, are premised not upon their common-law right to make, use, and sell the invention embodied in the '896 patent. Rather, Environ's complaint rests upon its right to exclude others from making, using, or selling its invention. This type of "[s]uit must be brought on the patent, as ownership only of the invention gives no right to exclude, which is obtained only from the patent grant." Id. at 1578-79 (emphasis in original). The '896 patent issued on March 29, 1994, nearly two years after the signing of the Stock Redemption Agreement. Because the patent claims did not exist on the date of the agreement's execution, the release does not bar them.

The release does bar all claims and counterclaims based upon the purported joint enterprise between the parties. This enterprise, and all claims derived from it, predate the signing of the Stock Redemption Agreement, and thus are within the scope of the release. The release thus bars APT's and Mr. LeBlanc's claims for Conversion (Count Three), Unjust Enrichment (Count Four), and Breach of Fiduciary Duties (Count Five). The release also bars EBW's claims for Conversion (Count III), Unjust Enrichment (Count IV), Breach of Fiduciary Duties (Count V),

Breach of Contract (Count VIII), Fraud on Shareholders and Directors (Count IX), Breach of Employment Agreement (Count X), and Declaratory Judgment Determining the Existence of the Joint Enterprise (Count XII).[3]

Environ also seeks summary judgment on the EBW parties' claims of unfair competition. In part, the EBW parties allege that Environ and Mr. Webb unfairly competed by wrongfully appropriating confidential information during the existence of the joint enterprise. If they based their unfair competition claims solely upon this allegation, the release would bar such claims. But they do not. The EBW parties also maintain that Environ and Mr. Webb have made false or misleading statements about the inventor and ownership of the invention in the '896 patent, thus violating § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) and the common law.[4] Because Environ's alleged marketing

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3. As discussed below, there is some dispute regarding APT's status as a successor within the meaning of the release provision. This dispute is irrelevant to the finding that APT's claims are barred. If APT indeed is a successor, its claims would be barred by the release. If APT is not a successor, then it would lack standing to bring claims based upon the joint enterprise.

4. The Lanham Act provides in relevant part:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description . . . or . . . representation of fact, which--
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> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship,

(continued...)

misrepresentations have continued past the date of the Stock Redemption Agreement, the release does not bar these claims.

Environ concedes that its claims against Mr. LeBlanc are barred by the Stock Redemption Agreement's release provision. It has agreed to voluntarily dismiss Mr. LeBlanc as a defendant in Civil Action No. 95-7209. I shall so order.

The parties dispute, however, whether Environ's claims against APT are also barred. Environ maintains that the release does not extend to APT because, when the release was signed, APT was not an agent, attorney, servant, stockholder, director, officer, heir, executor, administrator, successor or assign of any signatory. The EBW parties counter that APT is EBW's successor and successor-in-interest. Because there is a genuine issue of material fact concerning APT's status as a successor within the meaning of the Stock Redemption Agreement's release

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4. (...continued)

> or approval of his or her goods, services, or commercial activities by another person, or
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> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,
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> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a)(1). Except for the requirement that the goods have traveled in interstate commerce, the elements for a claim of unfair competition under Pennsylvania common law are identical to those for a claim under this section of the Lanham Act. See, e.g., Guardian Life Ins. Co. v. American Guardian Life Assur. Co., 943 F. Supp. 509, 517 (E.D. Pa. 1996).

provision, for now, I shall allow the claims against APT to proceed.

An order follows.

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O R D E R

AND NOW, this day of June, 1997, upon the reasoning in the attached Memorandum, Plaintiff Environ Product, Inc.'s Motion for Summary Judgment is GRANTED in part, and DENIED in part as follows:

1. In Civil Action No. 95-7209, summary judgment is entered in favor of Plaintiff Environ Products, Inc. and against the defendants, Advanced Polymer Technology, Inc. and Leo J. LeBlanc, on Counts Three, Four, Five, and Seven of the defendants' counterclaims

in their Answer, Affirmative Defenses and Counterclaims to Plaintiff's Amended Complaint.

2. In Civil Action No. 95-7209, Plaintiff's Motion for Summary Judgment on Counts One and Two of the defendants' counterclaims is DENIED.

3. In Civil Action No. 95-7209, Defendant Leo J. LeBlanc is DISMISSED as a defendant.

4. In Civil Action No. 96-4994, summary judgment is entered in favor of Defendants Environ Products, Inc., and Michael C. Webb and against Plaintiff EBW, Inc. on Counts III, IV, V, VIII, IX, X, and XII in Plaintiff's Amended Complaint.

5. In Civil Action No. 96-4994, Defendants' Motion for Summary Judgment on Counts I and II of Plaintiff's Amended Complaint is DENIED.

BY THE COURT

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Robert S. Gawthrop, III,
J.IN THE UNITED STATES DISTRICT COURT
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O R D E R

AND NOW, this day of July, 1997, the Motion by Defendant Advanced Polymer Technology, Inc. and by Plaintiff EBW, Inc. for Reconsideration of Order Granting Summary Judgment is DENIED.*

BY THE COURT

Robert S. Gawthrop, III, J.

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* Advanced Polymer Technology, Inc. ("APT") and EBW, Inc. ask that the court reconsider its order dated July 1, 1997 granting in part Environ Products, Inc.'s Motion for Partial Summary Judgment. Specifically, they request that this court reconsider its conclusion that APT is precluded from asserting

its claims based upon an alleged joint enterprise between EBW and Environ.

In my previous order, I dismissed several claims by APT based upon the joint enterprise, reasoning: "If APT indeed is a successor, its claims would be barred by the release. If APT is not a successor, then it would lack standing to bring claims based upon the joint enterprise." (emphasis added). I thus entered summary judgment in favor of Environ on APT's counterclaims for Conversion (Count Three), Unjust Enrichment (Count Four), Breach of Fiduciary Duties (Count Five), and Fraud in negotiation for Stock Redemption Agreement (Count Seven). As framed, these four claims would not exist unless APT could assert rights arising from the joint enterprise. APT still has not explained how it could make claims based upon the joint enterprise unless it is a successor or assign of a party to that enterprise. Thus, I shall deny the Motion for Reconsideration.

I would clarify, however, that my earlier ruling applies only the enumerated counterclaims, and does not extend to claims independent of the alleged joint enterprise. Further, although the release bars "all claims, causes of action, demands, rights and damages," and, by logical extension, counterclaims, it makes no mention of defenses.