

1979

# Microbiological Research Corp. v. Nadeem M. Muna : Brief of Appellants

Utah Supreme Court

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IN THE SUPREME COURT OF THE  
STATE OF UTAH

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MICROBIOLOGICAL RESEARCH :  
CORPORATION, a Delaware :  
corporation, :

Plaintiff and Respondent, :

vs.

NADEEM M. MUNA,

Defendant and Appellant.

-----  
BRIEF OF APPEAL

-----  
APPEAL FROM THE ENTRY OF  
INJUNCTION BY THE  
DISTRICT COURT, THE  
DUFFY PALMER, PRESIDENT

-----  
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CURTIS J. [REDACTED]  
On the Brief

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FILE

DEC 31 1979

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The Honorable J. Duffy Palmer entered an Order awarding respondent an injunction on the 19th day of November, 1979.

#### RELIEF SOUGHT ON APPEAL

Appellant respectfully requests that the injunction awarded to respondent by the Second Judicial District Court be set aside.

#### FACTS

Appellant, Nadeem M. Muna, received his Bachelor's Degree in Chemistry in 1951, a Master's Degree in 1954 in Biochemistry and Microbiology, and in 1968 was awarded his Ph.D. in Immunology and Microbiology (T. 129). From 1956 until 1968, while at U.C.L.A. and the Thomas Dee Hospital in Ogden, Utah, he worked with the immunofluorescence technique of tracing diseases (T. 199). In 1966 appellant published a paper in the American Journal of Clinical Pathology describing a procedure he, along with two other scientists, had developed to test patients for lupus erythematosus. The paper lists the equipment required as well as a step by step procedure for using immunofluorescence to perform an anti-nuclear antibody test (ANA) (T. 199 and Plaintiff's Exhibit 21). FL, HeLa and kidney cells were used by the appellant in making the slides for the test and these slides could be stored indefinitely until needed (Plaintiff's Exhibit 21 at 118). Appellant had good results from these slides five

years after they were made (T. 200).

Appellant spent two years at U.C.L.A. (1956 and 1957) where he developed an immunofluorescence test for Herpes virus (T. 211). He completed his Ph.D. studies in 1968 at the University of Utah where he participated in programs dealing with the growth of large batches of tissue culture cells. While at the University of Utah appellant and a number of his classmates and associates used flat Pyrex plates covered with Saran wrap to hold the tissue culture cells while they were propagating (T. 214).

During the fifteen years prior to 1968 appellant used many diverse cell lines, including the FL cells, to detect the presence of ANA and Herpes in a human patient (T. 200, 211). Appellant used isopropyl alcohol, ether and methanol to "fix" the cells during this time (T. 201, 227), and employed saline as a rinse in producing his early test kits (T. 200).

In 1968 appellant met Edward J. Mawod, a stock broker (T. 130). Appellant described to Mr. Mawod a research project which he was conducting which hopefully would result in a new method to detect cancer. Mr. Mawod then introduced appellant to three other gentlemen who agreed to raise capital to develop and market a cancer detection kit (T. 130). Microbiological Sciences, Inc. was incorporated, a lab was built and appellant was elected corporate president



and employed as its general manager. On September 4, 1968 appellant and respondent entered into a Management Contract (Plaintiff's Exhibit 22) and the development of a cancer detection kit was commenced. Microbiological Sciences, Inc. transferred its stock to a "shell" corporation shortly after it was organized and after another stock transfer and name change, it became Microbiological Research Corporation (hereinafter sometimes referred to as "MRC"), the respondent in this action. In May of 1969, respondent ran out of funds and was unable to purchase tumors necessary to the development of the cancer detection kit (Deposition of Nadeem M. Muna at 7-8).

Appellant advised respondent's board of directors that he felt that the commercial production of an ANA test kit was possible using the company's existing lab. Production and sale of the ANA kit commenced in September of 1969 (T. 135).

In 1972 respondent began marketing a toxoplasmosis test kit and in 1976, sale of a Herpes detection kit began (T. 135, 207). The Herpes kit is an immunofluorescence kit produced by using the same basic procedure as is used in making the ANA kit (T. 100). The toxoplasmosis kit is manufactured by respondent according to the procedures outlined in a manual published by the Center for Disease Control (T. 215-16). The only variation employed by respondent is the use of an ingredient called "Tween 80", which is also used

by Dr. Jack Remington, a California microbiologist who specializes in toxoplasmosis. The Hoffman-LeRoach Company, one of respondent's competitors, also utilizes Tween 80 (T. 216).

In 1970 respondent developed its own cell line and began using it in its test kits instead of cell lines named "FL" and "AV-3" (T. 203). From 1970 through 1974 appellant, on respondent's behalf, wrote several letters as well as a published article aimed at customers and potential customers. These documents claimed that respondent's test kits were superior because they utilized respondent's own special cell line (Plaintiff's Exhibits 1, 5 and 15). In 1974, however, one of respondent's technicians caused the loss of this special cell line and respondent commenced using FL and AV-3 lines (T. 203, 205-06). The basis of the "sales pitch" contained in these documents was thus eliminated and different marketing methods were required.

On August 14, 1972 respondent entered into an exclusive distributorship agreement with Smith-Kline Instruments, a California company. This agreement granted Smith-Kline the exclusive right to distribute respondent's ANA and Toxoplasmosis kits as well as any other products which respondent manufactured during the term of the agreement (Plaintiff's Exhibit 2). While this agreement was in effect, technical employees of Smith-Kline Instruments

worked in respondent's lab and assisted in the production of respondent's kits (Deposition of Nadeem M. Muna at 18). In December of 1975 Smith-Kline Instruments terminated its distributorship relationship with respondent and began selling its own ANA kit (T. 182, Deposition of Nadeem M. Muna at 15, 24). Respondent has several competitors who manufacture and market ANA Immunofluorescence, Herpes Immunofluorescence and Toxoplasmosis kits (T. 217, 218, 236, 238).

Appellant served as respondent's corporate president until February, 1978, when Mr. Mawod won the office in a shareholder's election (T. 4, 5). This election was preceded by a "proxy fight", and on January 24, 1978 appellant wrote a letter to all of the shareholders advising them that if he lost the election, he intended to quit working for respondent and start a competing business (Defendant's Exhibit 1). Mr. Mawod read this letter prior to the election (T. 63).

On February 28, 1978, after the shareholder's election, appellant and respondent entered into an Employment Agreement (Appendix "A"). This agreement purported to employ appellant as a consultant, research microbiologist and director of labs for respondent. Appellant continued to work in this capacity until on or about July 30, 1978, when Mr. Mawod, on respondent's behalf, terminated appellant's employment (T. 31).

Appellant then began preparing to manufacture

products similar to those sold by respondent. On September 28, 1979, respondent commenced this action and appellant has been judicially restrained from competing with respondent since that date. Prior to the trial of this case, appellant had petitioned the trial court for an order requiring that respondent post a bond pending the trial on the merits. This bond, which would have provided some protection for appellant in the event that respondent's case was found to be without merit, was denied by the trial court and the case progressed to its present posture before this Court.

SUMMARY OF TECHNICAL PROCEDURES INVOLVED IN  
MANUFACTURING ANA, HERPES AND TOXOPLASMOSIS  
TEST KITS.

Due to the complex and technical nature of the manufacturing processes which are the subject of the instant case, it is felt that a brief explanation would assist the Court in better understanding the issues. The following is extracted from the testimony of two of respondent's witnesses, Carol Golden, Ph.D., and Albert Leibovitz, as well as appellant's testimony and references to the record have been omitted.

ANA Test Kit

This kit is used by various laboratories and hospitals to test for the presence of anti-nuclear antibodies in a patient. When a patient's test reads positive, it is an

indication that he has lupus erythematosus.

In order to manufacture the kit the respondent propagates a number of FL or AV-3 human amnion cells in a growth media. The basic Minimum Essential Media is purchased from a commercial supplier and respondent adds certain other nutrients.

Glass slides, each having eight wells, are placed in a Pyrex baking dish and covered with the cells. The baking dish is covered with Saran wrap and the cells are allowed to grow until one layer covers the baking dish. The growth media is removed and the slides are washed to remove unwanted matter with a phosphate buffered saline solution.

The cells remaining on the wells of each slide are fixed (the growth is stopped) using isopropyl alcohol, and the slides are placed in a buffer and glycerine solution to preserve them. Respondent provides Antihuman Globulin which has a fluorescein additive with each test kit.

The laboratory places the Antihuman Globulin on the wells of the slide and a sample patient's blood is also placed on the well. Each of the eight wells of the slide can be used to test individual patients. The slide is placed under a fluorescence microscope and if a greenish-yellow fluorescent color appears, the test is positive.

#### Herpes Test Kit

The Herpes 1 and 2 test kits are manufactured and

used in virtually the same manner except that Herpes virus is added to the slides in place of the Antihuman Globulin. The respondent purchases its Herpes virus from the University of Utah.

### Toxoplasmosis Test Kit

This test does not employ the use of tissue culture techniques. A known parasite toxoplasmosis strain is inserted into a living mouse's belly and when the mouse becomes inactive and has ruffled fur the toxoplasmosis cells are removed. These cells are placed on slides and killed with formaldehyde. The slides are used by the laboratories and hospitals in much the same manner as the two previously discussed tests.

## POINT I

THE 1978 EMPLOYMENT AGREEMENT SUPERSEDED THE 1968 EMPLOYMENT AGREEMENT AND BECAME THE SOLE BINDING AGREEMENT BETWEEN THE PARTIES.

A. THE LANGUAGE CONTAINED IN THE 1978 AGREEMENT EXPRESSLY TERMINATED ALL PRIOR EMPLOYMENT AGREEMENTS.

An elementary principle of law allows that parties to a contract may, by means of a new contract, put an end to their old bargain and strike a new one; or, as stated in 17A C.J.S., Contracts, sec. 394: "As a contract is the result of agreement, so an agreement may put an end to a contract."

Paragraph 1 of the 1978 employment agreement states:

"All previous employment agreements and understandings in connection therewith are hereby mutually terminated and settled."

(Emphasis added.) (Appendix "A" at 1). A more succinct statement of the intent of the parties regarding this point would be difficult to draft. The Utah Supreme Court has set forth a clear guideline for discerning the intentions of the parties to a contract:

Elementary is it is that in construing contracts we seek to determine the intentions of the parties. But it is also elementary and of extreme practical importance that we hold contracting parties to their clear and understandable language deliberately committed to writing and endorsed by them as signatories thereto. Were this not so business, one with another among our citizens, would be relegated to the chaotic, and the basic purpose of the law to supply enforceable

rules of conduct for the maintenance and improvement of an orderly society's welfare and progress would find itself impotent. It is not unreasonable to hold one responsible for language which he himself espouses. Such language is the only implement he gives us to fashion a determination as to the intentions of the parties. Under such circumstances, we should not be required to embosom any request that we ignore that very language. This is as it should be. The rule excluding matters outside the four corners of a clear, understandable document, is a fair one, and one's contentions concerning his intent should extend no further than his own clear expressions.

Jensen's Used Cars v. Rice, 7 Utah2d 276, 323 P.2d 259, 260-261 (1958). See also: Oberhansly v. Earle, 572 P.2d 1384 (Utah 1977).

Language of a comparably express tenor was given such a strict interpretation in Burns v. Reliance Life Ins. Co. of Pittsburgh, 122 W.Va. 708, 12 S.E.2d 509 (1941), a case involving employment contracts signed in 1924 and 1935 which were asserted to terminate and supersede an employment contract signed in 1915. Both the 1924 and 1935 contracts contained essentially the following language:

This agreement shall take effect on the 20th day of February, 1924, and all previous communications between the parties hereto, verbal or written, are hereby abrogated and withdrawn, and this agreement, when duly signed and approved, constitutes the agreement between the parties hereto, and



no modification of this accepted agreement shall be binding upon the parties hereto, or either of them, unless in writing hereon duly accepted by the second party and approved by the proper officers of the first party. Id. at 510.

The Supreme Court of Appeals of West Virginia held the above-quoted language to be sufficient to effect a termination of the 1915 contract. Appellant contends that the express language of paragraph 1 of the 1978 employment agreement in the instant case is even more explicit than that at issue in Burns, supra.

Respondent is likely to argue that, despite the express language, it could not have intended to substitute the 1978 agreement for the 1968 agreement because it contends that it had no knowledge of the 1968 agreement. In Fogdall v. Lewis & Clark College, 590 P.2d 775 (Or.App. 1979), facial inconsistencies between two contracts of employment were found to be sufficient evidence of intent for the later agreement to supersede the prior agreement. The court also stated, "The law of contracts is not concerned with parties' undisclosed intents and ideas. It gives heed only to their communications and overt acts." Id. at 780. Appellant maintains that the facial inconsistencies between the contracts at issue in the instant case are sufficient evidence of respondent's intent. This Court should find that paragraph 1 of the 1978 employment agreement terminated the 1968 employment agreement and thus

conclude that the 1978 agreement superseded the 1968 agreement and became a substitute therefor.

A second principle of contract interpretation is equally supportive of appellant's theory of substitution of contracts: a contract drawn up by a party's attorney must be strictly construed against that party. Guinand v. Walton, 22 Utah2d 196, 450 P.2d 467 (1969). See also: Wingets, Inc. v. Bitters, 28 Utah2d 231, 500 P.2d 1007 (1972); Skousen v. Smith, 27 Utah2d 169, 493 P.2d 1003 (1972). In the instant case, the 1978 agreement having been drawn up by respondent's attorney (T. 19), it must be strictly construed against respondent. If the language of paragraph 1 of the 1978 agreement is to be given the force and binding effect dictated by Utah case law, the 1978 agreement must be interpreted as terminating the 1968 agreement and operating as the sole binding contract between the parties.

B. THE 1978 AGREEMENT BECAME A SUBSTITUTED  
CONTRACT FOR THE 1968 AGREEMENT BY OPERATION  
OF LAW.

In 17A C.J.S., Contracts, sec. 395, it is stated that: "A contract complete in itself will be conclusively presumed to supersede and discharge another one made prior thereto between the same parties concerning the same subject matter, where the terms of the latter are inconsistent with those of the former so that they cannot subsist together." (Emphasis added.) This maxim has received a strong

endorsement from the Supreme Court of Nebraska in Goings v. Gerken, 200 Neb. 247, 263 N.W.2d 655 (1978), wherein the court quoted the language of In re Estate of Wise, 144 Neb. 273, 13 N.W.2d 146 (1944): "A contract complete in itself will be conclusively presumed to supersede and discharge another one made prior thereto between the same parties concerning the same subject matter, where terms of the later are inconsistent with those of the former so that they cannot subsist together." 263 N.W.2d 655, 658 (Emphasis added.)

The notion that a subsequent contract may be substituted for a prior contract between the same parties is recognized by the Utah Supreme Court in Hanover Limited v. Fields, 568 P.2d 751 (Utah 1977). In Hanover Limited, a later earnest money agreement which was "complete on its face and contained no ambiguities" was found to have been substituted for a prior real estate contract. Id. at 753. Appellant contends that the court's logic in Hanover is applicable with equal force in the case of two employment contracts.

Appellant's theory on this point is supported by the findings of the Court of Appeals for the Sixth Circuit in Decca Records v. Republic Recording Company, 235 F.2d 360 (6th Cir. 1956). In Decca Records, a pianist had signed an employment agreement on an unspecified date prior to 1952 with Tennessee Records. On February 9, 1953, the pianist, Del Wood, signed a new employment contract with Republic Recording Company. (In Decca Records, Republic Recording

Company was the successor to Tennessee Records, just as in the instant case where Microbiological Research Corporation was the successor to Microbiological Sciences, Inc.). In finding that the 1953 employment contract was a substituted contract for the prior employment agreement, the court stated,

But the legal effect of the new contract afterward executed between Republic and Del Wood was to rescind and supersede the former contract executed between Tennessee and Del Wood, which had been assigned to Republic. A second contract of a later date that an earlier contract containing the same subject matter, but containing terms inconsistent with the former contract, will supersede the former contract even though there is no express agreement that the new contract shall have that effect. Id. at 363. (Citations omitted.)

The express termination clause in the 1978 agreement in the instant case has been previously emphasized by appellant. It should also be noted that the 1978 agreement contains terms pertaining to virtually every individual subject discussed in the 1968 agreement.

In determining whether a new employment contract will be found to supersede a prior employment contract in the absence of express language to that effect, courts have often closely scrutinized the employee's position to see if there has been a change of circumstances. If a significant change of circumstances has occurred, the new employment contract is more likely to be deemed a substitute for the old one.

A change of circumstances has included such fact patterns as a termination and a rehiring, a change in offices, positions, titles or roles by the employee, changes in compensation, changes in duties, lapse of time, and various other factors. In the following cases, the court placed great weight on whether a change in circumstances had occurred.

In M. S. Jacobs and Associates, Inc. v. Duffley, 303 A.2d 921 (Pa. 1973), a salesman signed an employment contract in 1968 which contained a covenant against competition. In 1969, the employee tendered his resignation, but remained employed after receiving a raise. The Supreme Court of Pennsylvania found that no novation of the 1968 contract had occurred in 1969 because "the resignation was never accepted and . . . appellee's pay was never stopped." Id. at 923. In the instant case, respondent admits that appellant was "discharged" and subsequently entered into a "new employment agreement". (R. 132). Moreover, appellant's status changed from that of President and General Manager to Director of Labs and consultant, his salary went from \$12,000 per year to \$17.00 per hour, and appellant was no longer to be reimbursed for business expenses that he incurred. (Appendices "A" and "B"). These facts constitute a change in circumstances which was missing in M. S. Jacobs and Associates, Inc., supra.

If the 1978 agreement is not found to have superseded the 1968 agreement in its entirety, the two agreements should at least be read together, with the inconsistent parts of

the 1978 contract superseding the prior 1968 conflicting provisions. Such an approach was utilized by the Supreme Court of North Dakota in Metcalf v. Security Intern. Ins. Co., 261 N.W.2d 795 (N.D. 1977), wherein the court read employment contracts executed in 1963, 1967 and 1972 together, holding that later inconsistent provisions superseded prior clauses which were in conflict. In the instant case, the 1978 and 1968 agreements are inconsistent in essentially three areas: (1) appellant's position, title and responsibilities; (2) compensation; and (3) the non-competition clauses. Specifically, these clauses read as follows:

(1) appellant's position, title and responsibilities:

1968 agreement

Management Contract

1. The Company hereby employs Muna as its President and General Manager for a period of five (5) years from the date hereof, and thereafter, from year to year, unless terminated by either party hereto by written notice at least sixty (60) days prior to any anniversary date of this Agreement.

1978 agreement

Employment Agreement

3. Muna agrees to act as a consultant and research microbiologist for Micro upon such problems and projects as the management of Micro shall specify, and shall be Dir. of Labs (CDC).

4. . . .

When not engaged in consulting work, Muna shall pursue the designated research projects and shall devote as much time to said employment as his health permits, but not to exceed 40 hours per week, without prior written permission.

(2) compensation:

1968 agreement

4. The Company shall pay Muna a basic salary of Twelve Thousand Dollars (\$12,000) per annum, payable in equal monthly installments, for all services rendered by Muna for the Company. The Company shall also reimburse Muna for all expenses incurred by him in the furtherance of the business of the Company, approved by the Board of Directors of the Company.

1978 agreement

4. Micro shall pay to Muna the sum of \$17.00 per hour, payable semi-monthly, for such consulting and research work. (No provision was included for the reimbursement of expenses.)

(3) non-competition clauses:

1968 agreement

6. Muna agrees that during the terms of this Agreement he will not engage in any other commercial activity in any way competitive with the business of the Company, or its affiliated companies, and that, for a period of five (5) years after leaving the employ of the Company, he will not engage in any way, directly or indirectly, in any business competitive with the Company or its affiliated companies any (sic) any

state in which any of them do business. Muna further agrees that he will not disclose to any other person any information which is the property of the Company or its affiliated companies.

1978 agreement

6. During the term of this Agreement Muna shall not act as a consultant for, or accept employment from any competitor of Micro nor shall he compete directly or indirectly with Micro.  
(The term of the 1978 agreement was continuous with termination upon thirty days notice.)

Each clause recited above is so inconsistent with its counterpart in the opposite agreement that the clauses cannot be read together. The clauses from the 1978 agreement must be read as superseding those in the 1968 agreement.

Appellant acknowledges that the intent of the parties is largely determinative of whether the clauses recited above from the 1978 agreement should supersede those from the 1968 agreement. As is stated in 15 WILLISTON ON CONTRACTS, THIRD EDITION SECTION 1826, p. 485-86:

'A contract containing a term inconsistent with a term of an earlier contract between the same parties is interpreted as including an agreement to rescind the inconsistent term in the earlier contract. The parties may or may not at the same time agree to rescind all the other provisions of the earlier (sic) contract.' The extent of the substitution is a matter of their intent.



This Court has stated that a party's assent to a substituted contract may be shown by surrounding circumstances. Robison v. Hansen, 594 P.2d 867 (Utah 1979). In Robison, an assignor took possession of a car wash from his assignee in compromise of their prior agreement to have the assignee run the car wash. Justice Maughan, citing 6 CORBIN ON CONTRACTS, sec. 1293, p. 197, endorsed the following principle:

The substituted contract, whether of rescission or modification, may be expressed otherwise than in words. Such an implied, or inferred, agreement, found by interpretation of conduct instead of words, has the same legal operation as if it had been expressed in words. 594 P.2d 867, 870.

Respondent will doubtless contend that it could not have intended the 1978 agreement to supersede the 1968 agreement because respondent maintains that it was unaware of the 1968 agreement. Appellant asserts that the intent of the parties to substitute the 1978 agreement for the 1968 agreement can be shown from the surrounding circumstances. In 1968, appellant was to be President and General Manager of respondent and signed an agreement entitled "Management Contract". As the years passed, appellant became increasingly dissatisfied with the corporate operation, his dissatisfaction culminating in a letter to the shareholders of respondent

expressing his intent to terminate his employment with respondent if appellant lost the upcoming "proxy fight". (Defendant's Exhibit 1) Appellant then suffered a serious heart attack which reduced his capacity to work on a full-time basis. Appellant subsequently lost the "proxy fight" and was ousted from his management position. It was after all these occurrences that appellant and respondent entered into the 1978 "Employment Agreement". Such circumstances indicate that respondent must have intended the 1978 agreement to supersede the 1968 agreement.

Finally, two general principles concerning employment contracts must be emphasized. First, ambiguities in an employment contract must be construed most strongly against the employer who drafted the contract. National Cash Register Company v. Lightner, 154 Colo. 98, 388 P.2d 781 (1964). Second, covenants not to compete contained in a contract of employment are to be strictly construed against the employer. Eastern Distributing Co., Inc. v. Flynn, 222 Kan. 666, 567 P.2d 1371 (1977). Both of these concepts support a determination that the 1978 agreement superseded the 1968 agreement.

In summary, appellant contends that the express language of the 1978 agreement terminated the 1968 agreement and therefore the 1978 agreement became the sole binding contract between the parties. If the Court should find

that there was no express termination, then the facial inconsistencies between the two agreements, the rules of strict contract interpretation and the policy of favoring the employee when dealing with a non-competition clause drafted by the employer, all support a finding that the 1978 agreement superseded the 1968 agreement.

POINT II

APPELLANT DID NOT DELIBERATELY CONCEAL THE EXISTENCE OF THE 1968 EMPLOYMENT AGREEMENT NOR DID HE HAVE A FIDUCIARY DUTY TO VOLUNTEER ANY INFORMATION CONCERNING ITS EXISTENCE OR CONTENTS.

The finding of fact by the trial court that appellant deliberately concealed the existence of the 1968 employment agreement is not supported by sufficient evidence. Appellant had no recollection of having signed the 1968 agreement until it was shown to him by counsel for respondent at the hearing on appellant's motion for summary judgment. The trial transcript is devoid of sufficient evidence to form a substantial basis for respondent's claim that appellant deliberately concealed the existence of the 1968 agreement. The trial court's finding that appellant deliberately concealed the agreement is, therefore, erroneous. This Court must correct an erroneous finding of fact by the trial court which is not supported by a substantial basis in the evidence. Cornia v. Cornia, 546 P.2d 890 (Utah 1976).

A. APPELLANT HAD NO FIDUCIARY DUTY TO VOLUNTEER ANY INFORMATION CONCERNING THE EXISTENCE OR CONTENTS OF THE 1968 AGREEMENT.

In its conclusions of law, the trial court states that,

Defendant had a fiduciary duty during the negotiations on his employment contract of February 28, 1978, to reveal to the

new officers of the plaintiff the existence and the terms and conditions of his employment contract of September 4, 1968, and that his concealment of that employment contract made a nullity of the employment contract of February 28, 1978.

Appellant contends that the dramatic changes in his involvement with respondent which precipitated the 1978 agreement destroyed any fiduciary or confidential relationship he may have had with respondent as its former president. Specifically, appellant contends that the following circumstances removed any duty to volunteer information to respondent during contract negotiations in 1978:

(1) On January 24, 1978, appellant sent a letter (Defendant's Exhibit 1) to the stockholders of respondent informing them of his discontent with the management of respondent and of his intent to resign and start a new business if Mr. Mawod should win the upcoming "proxy fight";

(2) Mr. Mawod did, in fact, win the "proxy fight" and appellant was ousted as president and general manager of respondent;

(3) Appellant's personal differences and disagreements with Mr. Mawod, with whom appellant negotiated the 1978 agreement, were clear from the face of appellant's letter of January 28, 1978, and were known to Mr. Mawod prior to the negotiations of the 1978 agreement (T.63);

(4) Appellant's status had, at the time of negotiations on the 1978 agreement, changed from that of full-time president and general manager with salary and

expense account to part-time hourly consultant with no official duties;

(5) Mr. Mawod had maintained constant involvement with respondent from his activities as a promoter in 1968 to president in 1978;

(6) The negotiations for the 1978 agreement were carried on at arm's length.

In Renshaw v. Tracy Loan and Trust Co., 87 Utah 364, 49 P.2d 403 (1935), the Utah Supreme Court emphasized the importance of scrutinizing the types of circumstances listed above when assessing whether a fiduciary duty existed:

It is not every relationship to which the term "fiduciary" or "confidential" might be applied with some degree of reason or plausibility that will authorize, by itself alone, the creation of the presumption of fraud in the dealings between each other of those occupying that relationship. Every business transaction involves a certain amount of confidence and trust. Equity will not discourage transactions by creating presumptions of their fraudulent nature, except in those cases where the transactions occur between parties to relationships which by their very nature it is the policy of the law to protect one of the parties thereto on the theory that they are not dealing on an equal basis because of the confidence which one party to the relationship is presumed to have in the other. It is always a question, therefore, of the actual relationship between the parties that must be inquired into, and not whether the terms "fiduciary," "confidential," or "trust," can, with some degree of reason, be applied to the relationship. (Emphasis added.) Id. at 404.

Appellant maintains that his relationship with Mr. Mawod and his estrangement from respondent as a corporation prevented the imposition of a fiduciary duty.

In Vargas v. Esquire, Inc., 166 F.2d 651 (7th Cir. 1948), cert. denied 335 U.S. 813, Mr. Vargas had been working under the terms of an initial employment contract for some three years when a second employment contract was entered into. Vargas sought to avoid the second contract by claiming that his employer's agent had breached a fiduciary duty by failing to disclose the terms of the contract. Despite extensive business, personal and social involvement between Vargas and the agent, no fiduciary or confidential relationship was found. The court stated:

The [fiduciary] relationship arises wherever the circumstances make it certain that confidence was reposed on one side and domination and influence resulted on the other. But where a fiduciary relationship does not exist as a matter of law, the burden of proving facts from which such a relationship arises is upon the person seeking to establish the relationship, and the proof must be clear, convincing, and so strong as to lead to but one possible conclusion. (Citations omitted.) Id. at 653.

Because appellant's positions as president and general manager had been terminated and his dissatisfaction with the management of respondent was so well-known, a fiduciary relationship cannot be established as a matter of law; furthermore, appellant's relationship with Mr. Mawod and the circumstances surrounding the negotiation of the 1978 contract

prevent any finding of a fiduciary relationship resulting from confidence or trust.

The significance of appellant's discharge as president and general manager of respondent is emphasized in 19 Am.Jur.2d, Corporation, Sec. 1273, p. 681: "After there has been a severance of official relationship, either because of resignation or removal, generally, a director or officer occupies no relation of trust or confidence to the corporation." In Renpak v. Oppenheimer, 104 So.2d 642 (Fla.App. 1958), the rule is stated as, "After there has been a severance of official relation, either because of resignation or removal, the former director or officer may then deal with the corporation thereafter like any other stranger." Id. at 644. Appellant was entitled to deal with respondent as a stranger would have.

The typical situation in which a failure to disclose certain facts is deemed a breach of a fiduciary relationship is found in Elder v. Clawson, 14 Utah 2d 379, 384 P.2d 802 (1963), wherein a vendor failed to disclose a quarantine affecting the land sought by the purchaser. The court, quoting from 23 Am.Jur. 857, Fraud and Deceit, IV Concealment, Sec. 80, stated:

"Knowledge that the other party to a contemplated transaction is acting under a mistaken belief as to certain facts is a factor in determining that a duty of disclosure is owing. There is much authority to the effect that if one party to a contract or transaction has superior



knowledge, or knowledge which is not within the fair and reasonable reach of the other party and which he could not discover by the exercise of reasonable diligence, or means of knowledge which are not open to both parties alike, he is under a legal obligation to speak, and his silence constitutes fraud, especially when the other party relies upon him to communicate to him the true state of facts to enable him to judge of the expediency of the bargain." 384 P.2d at 805.

Appellant did not possess superior knowledge which could not have been obtained by respondent through the exercise of reasonable diligence. A mere examination of the corporate files by Mr. Mawod would have revealed a copy of the contract. Nor did appellant occupy a position of trust or confidence with respect to respondent or respondent's agent which would give rise to a duty of disclosure. Most importantly, appellant occupied no formal position which would impose a duty of disclosure upon him by operation of law. Because no duty to speak existed, appellant's failure to recall the existence of the 1968 agreement and his resulting silence should not vitiate the 1978 agreement.

**B. RESPONDENT HAD KNOWLEDGE OF THE 1968 AGREEMENT BECAUSE A CORPORATION IS CHARGED WITH THE KNOWLEDGE OF ITS OFFICERS.**

The 1968 agreement was signed by appellant and attested by one Daniel E. King, secretary of respondent. While the signature of the vice-president of respondent does

not appear on any of the copies of the 1968 agreement given to appellant, respondent cannot deny that the agreement was signed by its vice-president since it is asserting the validity of the agreement.

As stated in 3 Fletcher Cyc. Corp. (Perm Ed)  
Sec. 801, p. 38,

Subject to certain qualifications and exceptions hereinafter noted, the general rule is well established that a corporation is charged with constructive knowledge, regardless of its actual knowledge, of all material facts of which its officer or agent receives notice or acquires knowledge while acting in the course of his employment within the scope of his authority, even though the officer or agent does not in fact communicate his knowledge to the corporation. The rule does not depend upon the fact that the agent has disclosed the knowledge or information to his principal, "subject to the exceptions named, the law conclusively presumes that he has done so, and charges the principal accordingly." In other words this rule rests upon the presumption that the agent will communicate to the corporation the facts learned by him, as it is his duty to it, and whether he performs such duty or not, the corporation is bound. So notice to an agent of a corporation relating to any matter of which he has the management and control is notice to the corporation.

The Utah Supreme Court has adopted the principle of imputing knowledge to a corporation through the knowledge of its officers in Lowe v. April Industries, Inc., 531 P.2d 1297 (Utah 1974). Moreover, as is further stated in Fletcher, supra, sec. 801, p. 38, "if notice to or knowledge of a

corporate officer is such as to be imputable to the corporation, the subsequent death, discharge, removal, termination of office or the like, without any actual communication of the information to the corporation, does not affect the force of the imputation of notice." (Emphasis added.)

In a case involving the issue of whether a corporation was deemed to have imputed knowledge of the contents of a contract for the purchase of mining cars, the Court of Appeals of Kentucky held that the corporation was deemed to have the knowledge of the corporate officer who signed the contract. Enterprise Foundry & Mach. Works v. Miner's Elkhorn Coal Co., 241 Ky. 779, 45 S.W.2d 470 (1931).

Appellant contends that in the instant case, where two officers of respondent signed the 1968 agreement, respondent should be deemed to have had knowledge of the existence and contents of the 1968 agreement in February of 1978. Respondent must have retained a copy of the 1968 agreement, as it was respondent who produced the agreement at the hearing on appellant's motion for summary judgment. This Court should not permit one party to a contract to avoid searching its files and exercising reasonable diligence in ascertaining facts pertinent to the contract under negotiation. The notion of imputation of knowledge is sound and, in the instant case, prevents respondent from asserting a lack of knowledge of the existence of the 1968 agreement. The findings of fact and conclusions of law of the trial court on this point must be reversed.

### POINT III

RESPONDENT FAILED TO MEET ITS BURDEN OF PROVING THAT TRADE SECRETS ARE INVOLVED IN THE MANUFACTURE OF THE TEST KITS.

While respondent has never alleged in any precise manner the items or processes which it considers to be trade secrets and findings of fact and conclusions of law entered by the trial court are unclear on this point, appellant believes that the following is a comprehensive list of all possible items or processes which respondent may claim to be trade secrets:

#### ANA and HERPES KITS:

- (1) the use of "FL" or "AV-3" human amnion cell lines;
- (2) the addition of tryptose phosphate broth, Hepes buffer and/or Lactalbumen Hydrolysate to the minimum essential media (MEM);
- (3) the use of isopropyl alcohol as a fixative;
- (4) rinsing the slides three times with a solution containing sodium bicarbonate;
- (5) the use of large Pyrex plates, tape and Saran wrap in processing the slides.

#### TOXOPLASMOSIS KIT:

- (6) the use of "Tween 80" as a deterring agent on the slides.

ALL KITS:

- (7) customer lists for all kits.

The definition of "trade secret" found in Section 757, Comment b of Restatement, Torts (1939), has been widely accepted by courts dealing with the problem of trade secrets:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. . .

An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are:

- (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Appellant contends that an application of the Restatement definition and determinative factors to the seven items and processes listed above and discussed below reveals that none of the "secrets" is, in fact, deserving of protection as a trade secret.

ANA and HERPES KITS

- (1) the use of "FL" or "AV-3" human amnion cell lines--

The use of these particular cell lines as a trade secret cannot withstand the application of any one of the six factors. The FL and AV-3 cell lines are known to microbiologists both within and outside of the business of producing disease test kits. Dr. Leibovitz testified that he had grown FL cells previously and was familiar with the AV-3 line (T.80-81). Appellant testified that, in fact, the FL line had been used by MRC only after it had lost its own original cell line in 1974, (T.203-06), and that monkey cells work as well as human cells as a substrate (T.211). In 1970, Kenneth Hayami Kato published a thesis for his Master of Science Degree in which he concluded that human, mouse, monkey and chicken cells all produced the desired results sought in the immunofluorescent process (Defendant's Exhibit 2).

THE FL and AV-3 lines are not guarded by respondent as secrets; they have comparatively little value, per se, to respondent; MRC expended no effort or money in developing the lines; respondent's competitors could, and in all likelihood do, purchase these lines for their production processes. In short, respondent obtains no competitive advantage from the use of FL and AV-3 cell lines because they are equally available on a commercial basis to competitors.

(2) the addition of tryptos phosphate broth, Hepes buffer and/or Lactalbumen Hydrolysate to the minimum essential media (MEM)--This particular procedure must fall short of

trade secret status because even respondent cannot claim to know the significance, if any, of the addition of some or all of the three supplements to the media. Respondent's own witness characterized the effect of the additives and their role as "black magic". (T.83). Testimony was also elicited that established the existence of other means of growing cells in a media that were as good as respondent's method. (T.85). The use of these additives is common knowledge among microbiologists who seek to grow cells in a media. The use of these additives is no more a trade secret than a gardener's choice of a particular fertilizer to apply to his lawn.

(3) the use of isopropyl alcohol as a fixative--

This procedure affords respondent no commercial advantage and is merely a choice of one of several equally effective alternatives. Respondent's witnesses established the acceptance within the scientific community of isopropyl alcohol as a fixative and testified that propanol, methanol, ethyl alcohol and acetone are also equally effective fixatives. (T.88, 118). Applying the Restatement factors supports the conclusion that respondent derives no unusual value or benefit from the use of isopropyl alcohol and that respondent's competitors are aware of the procedure even if they do not already use it.

(4) rinsing the slides three times with a solution containing sodium bicarbonate--The use of bicarbonate is another example of a procedure whose significance is unknown to respondent. Dr. Leibovitz testified that he did not know if the sodium bicarbonate did anything. (T.87). Dr. Golden also could not testify to any beneficial effect of the sodium bicarbonate. (T.125). Appellant maintains that respondent's process is essentially a very simple one, known and understood by microbiologists in general, which has been clouded by purported complexity. The presence of "black magic" additives and unexplained elements does not change a fundamentally simple process. If respondent's logic is expanded, one of two unsupportable results obtains: (a) a legitimate secret formula can become a second "secret" formula by the addition of one unexplained and possibly non-functional element; or (b) any combination of unexplained and possibly non-functional components can be a "secret" formula. Such is not the law of trade secrets.

Respondent also maintains that rinsing the slides three times (as opposed to one, two, four, five or any other number of times) is a trade secret. The purpose of rinsing the slides is to cleanse them, and common knowledge dictates that the more times something is cleansed, the cleaner it becomes. Trial testimony further emphasized this obvious conclusion. (T.88-89). Appellant submits that the three rinses are indicative of the care taken in the production of the slides



and not a part of any secret process. Care taken in the production of an item does not warrant protection as a proprietary interest.

(5) the use of large Pyrex plates, tape and Saran wrap in processing the slides--A basic element in a trade secret in an employer-employee relationship is that the secret must have been disclosed, evolved or discovered after the employee began to work for the employer. An employee's knowledge, skill and experience which he brings with him to the employment relationship remain his after the relationship ends. Tempo Instrument Inc. v. Logitek, Inc., 229 F.Supp. 1 (E.D.N.Y. 1964). Appellant testified that he was taught to use the technique utilizing Pyrex plates, tape and Saran wrap by a Dr. Hale at the University of Utah Virology Department prior to going to work for respondent in 1968. Moreover, each student in Dr. Hale's class was instructed in the technique. This procedure can hardly be termed secret. It should also be noted that Douglas W. Hill, Ph.D., used this exact same procedure as early as 1964 while doing tissue culture work for the Army at the University of Utah. It has been published in several reports, disclosed in at least two theses and is therefore part of the public domain. (R.115).

Dr. Golden testified that this technique was an efficient way to process large numbers of slides, but that other methods of accomplishing that goal are available,

e.g., a plastic stacking device (T.120). If respondent's competitors can obtain the same level of efficiency by alternate means, respondent cannot claim that the technique that it learned from appellant is proprietary. To deprive appellant of the use of this procedure would be to impose a forfeiture of knowledge that was in no way gained from his employment with respondent.

#### TOXOPLASMOSIS KITS

(6) the use of "Tween 80" as a deterring agent on the slides--Dr. Golden testified that respondent's procedure in manufacturing the toxoplasmosis kits is "similar to that recommended by the Center for Disease Control except for our purposes, we incorporate a deterring agent, Tween 80, T-w-e-e-n 80, into the suspending fluid to keep the toxo from settling to the edges of this little well on the slide." (T.108). She went on to acknowledge that, despite the fact that her job with respondent was her first experience with commercial laboratories, she was aware that a Dr. Jack Remington, a "world authority on toxoplasmosis (T.20), also used Tween 80. (T.126). Appellant testified that Hoffman-LeRoach Company used Tween 80 as well (T.216). The properties of Tween 80 as a deterring agent are known to the scientific community and its use by respondent is incidental to the basic immunofluorescent process. Because of its incidental nature, the use of Tween 80 is of relatively little value to

respondent or its competitors; therefore, it is not deserving of protection as a trade secret under the Restatement test, supra.

#### ALL KITS

(7) customer lists--The only evidence concerning the alleged proprietary nature of a customer list is found in the deposition of Edward J. Mawod. Mr. Mawod testified that such a list does exist, and that it was compiled from sources including referrals from existing customers, inquiries from journal advertisements, state health institutions and lists obtained from the federal customs department (Deposition of Edward J. Mawod 46, 48, 51). Mr. Mawod also testified that appellant had suggested names to be contacted and placed on the list (Deposition of Edward J. Mawod 49). The overwhelming majority of customers on the list were laboratories and hospitals, both of which are readily accessible in telephone books, trade journals or other public sources. Mr. Mawod estimated the number of customers at three hundred (Deposition of Edward J. Mawod 46), which is not an unusually large number of customers for a business selling products on a worldwide basis. Appellant contends that respondent has not shown the requisite elements for establishing a proprietary interest in the customer list. Most notably, respondent expended very little effort and money in developing the list and made no attempt to keep

the list secret until Mr. Mawod took over as president of respondent (T. 65). Because of respondent's failure to carry his burden on this issue, appellant should be permitted to contact any potential customers of his choosing.

Several general points concerning respondent's overall production of test kits and claimed trade secrets must be emphasized. Most importantly, respondent failed to rigorously maintain a high level of secrecy as set forth in the Restatement and as required by the subsequent case law. First, respondent did not institute security procedures at the lab until relatively late in appellant's tenure of employment. Appellant started to work in 1968, yet non-competition clauses in employee's contracts were not required until 1974 and then only because non-technical members of management requested that such contracts be used (T. 27). The locked, fire-proof file, visitor logbook and visitor non-disclosure forms were all implemented by Mr. Mawod only after he became president of respondent in 1978 (T. 65). Respondent is apparently attempting to assert that, even though Mr. Mawod is not qualified to testify about the technical, unique or secret aspects of the test kits (T. 58), his actions in attempting to protect certain information renders this information secret and/or proprietary. Second, all of respondent's claimed secrets have been revealed in the literature of the scientific community. Dr. Stanley Marcus was asked this question:

"Dr. Marcus, in your opinion is there anything that is not published in the literature or not generally known to a competent microbiologist that he would need to know in order to manufacture either an ANA test kit, and a Herpes, or a Toxoplasmosis kit in a commercial quantity?"

A. No.

(T. 239).

Appellant also testified:

"In my opinion, everything that MRC or any other manufacturer has in the biological field, is found in the literature. If you don't believe me, take a look at the references they put to document their work and you can open a whole door of references as to where all this information has come from.

(T. 216).

In addition to articles by other authors on the subject, appellant himself had published an article in 1966 detailing the procedure, parameters and methodology of immunofluorescence and the production of test slides (T. 199). Defendant's Exhibits 2, 3 and 5 were also documents providing information on the process at issue (T. 209-10, 215).

A fitting description of the futility of belated efforts aimed at establishing secrecy is found in 12 Business Organizations, MILGRIM, TRADE SECRETS, Sec. 2.03, p. 2-25:

But whether secrecy is lost through seepage in conduct of business, sale or exposition of a product embodying the secret,

disclosure of the idea through a trade or technical publication, or by way of a patent, or by unprotected use in a foreign country, the principle remains: a secret on the wing cannot be recalled. (Emphasis added.)

Respondent has failed to prove that any of the claimed proprietary interests are sufficiently secret to warrant protection.

Respondent has also failed to establish that the claimed secrets are of value to it or its competitors. As has been shown, supra, several of the processes cannot be explained by respondent and others have readily available alternatives. Thus, the value element of the Restatement test is missing. Significantly, no showing has been made that respondent expended large amounts of money or effort in developing the process for making the test kits. As has been emphasized before, appellant possessed the skill, knowledge, experience and techniques needed to make the kits before he began working for respondent. Mr. Mawod merely afforded appellant an opportunity to continue using his skills, which, in turn, gave Mr. Mawod the opportunity to participate in a money-making enterprise. Respondent has not shown which, if any, new techniques or processes were unknown to appellant in 1968 and discovered only after he began his employment with respondent. Lastly, appellant has shown that the supposedly secret information could be easily duplicated

by other competent microbiologists by simply using the published literature and independent research. In short, respondent has failed to meet the accepted criteria of the Restatement test and, therefore, no trade secrets can be established.

Without burdening this Court with lengthy quotations, appellant invites the Court to consider an excellent discussion of the competing policy arguments involved in an employer-employee trade secret case, found in Wexler v. Greenberg, 399 Pa. 569, 160 A.2d 430 (1960). While Wexler did not involve an express covenant assigning the employee's discoveries to the employer, the reasoning the the Supreme Court of Pennsylvania is applicable to the instant case because appellant contends that no novel discoveries were made by appellant after he began work for respondent. Appellant contends that, as the court found in Wexler, the policies in favor of economic mobility and personal freedom in pursuing a livelihood outweigh those supporting the furtherance of "investment in research" by private business.

#### POINT IV

THE TWO-YEAR INJUNCTION IMPOSED UPON APPELLANT BY THE TRIAL COURT LACKS SUFFICIENT SPECIFICITY AND UNREASONABLY RESTRAINS APPELLANT FROM PURSUING A LIVELIHOOD.

The memorandum decision entered by the trial court on August 16, 1979, states,

THE DEFENDANT is further enjoined and restrained from competing with plaintiff in any of it's (sic) product lines for a period of two (2) years from date of entry of this Judgment.  
(R. 190)

The Conclusions of Law entered by the trial court state at paragraph 4:

That defendant should be restrained for a period of two years from the entry of this judgment from competing with the plaintiff in plaintiff's present product lines to wit Antinuclear Binding Antibody kits and all of its components, toxoplasmosis kit and all of its components, infectious mononucleosis kit and all of its components, Herpes 1 and 2 kit and all of its components.

Neither of these statements by the trial court provides sufficient information to enable appellant to determine (1) what specific trade secrets were found by the trial court; (2) what types of employment would be considered "competing" with respondent; (3) what geographic area was contemplated by the trial court; and (4) the precise meaning



of "all of its components". A strict interpretation of the final restraining order would seem to prevent appellant from producing a test kit using any process, even though the process utilized might be completely different than respondent's claimed secret process. A liberal reading of the order would appear to prohibit appellant from being employed as a microbiologist in any capacity if it would involve the growth of cells, the use of slides or the use of certain chemicals, all of which are components of respondent's kits.

Without conceding that a restraining order is justified at all in the instant case, appellant submits that the order must at least be specific in defining the acts which it seeks to prohibit. If appellant is to be restrained from utilizing the exact procedure used by respondent in making a certain kit, the order should so state. Certainly an order preventing appellant from using skills and techniques which he possessed prior to his employment with respondent is unjustified. Appellant further asserts that an order prohibiting him from making test kits without what this Court may find are, in fact, trade secrets, would be unreasonable. Appellant should not be placed in economic bondage by an overly broad, vague restraining order.

Rule 65A(d) of the Utah Rules of Civil Procedure sets forth clear guidelines for the form and scope of an

injunction or restraining order:

Every order granting an injunction and every restraining order shall be specific in terms; shall describe in reasonable detail, and not by reference to the complaint or other document, the act or acts sought to be restrained; and is binding only upon the parties to the action, their officers, agents, servants, employees, and attorneys, and upon those persons in active concert or participation with them who receive actual notice of the order by personal service or otherwise.

Appellant submits that the order entered by the trial court does not comply with Rule 65A(d), U.R.C.P. An overly broad restraining order may be modified by an appellate court. E. W. Bliss Company v. Struthers-Dunn, Inc., 408 F.2d 1108 (8th Cir. 1969). It is further submitted that where, as in the instant case the trial court apparently has not determined what the trade secrets are, a modification of the restraining order cannot be intelligently made.

#### CONCLUSION

Mr. Edward J. Mawod has been associated with respondent since its creation. He acted as its executive director from 1974 until 1977 and was on the board of directors for several years during the corporation's existence. He knew appellant personally and was put on notice of appellant's intentions if Mr. Mawod became corporate president. Mr. Mawod, when he became president, had a fiduciary duty to respondent which required him to act in respondent's best

interest.

Despite these facts, Mr. Mawod, on behalf of the respondent, executed the 1978 employment agreement which contained no restrictions on appellant should he leave respondent's employ. Respondent prepared the agreement and could have included any non-competition provisions it desired. Instead, respondent elected to release appellant from any previous restrictions and to not impose new non-competition restraints. A more clear, unambiguous or precise written statement of respondent's intentions is inconceivable.

Mr. Mawod contends, however, that he did not know of the 1968 agreement and that he did not discover it until after appellant's employment was terminated. This contention is without merit for two reasons. Mr. Mawod, as corporate president, had all corporate files available to him and an examination of the records would have revealed the 1968 agreement. Not only did he fail to make such an examination, he expressly, on behalf of respondent, revoked and cancelled any and all prior agreements by the language used in the 1978 agreement. The only logical conclusion is that this revocation included all lost, stolen, burned, misplaced, forgotten or destroyed written or oral agreements.

Prior to 1968 appellant put a substantial amount of effort into developing a process whereby immunofluorescence could be used to rapidly and accurately detect diseases in

human beings. He had successfully used this technique to detect lupus erythematosus, a devastating disease affecting primarily women during their child bearing years. In 1966 he published a paper disclosing to the medical community how to make and use this test. The immunofluorescence technique had proven useful in detecting Herpes virus and in 1967 and 1968 appellant began to work toward creating a test for the earlier detection of cancer.

Mr. Mawod and the other promoters involved in the establishment of the respondent corporation offered appellant funding to continue this effort. When the funding did not materialize, appellant took what was and is common knowledge in the tissue culture field, combined this with his earlier immunofluorescence work and employed the University of Utah's Pyrex baking dish procedure to commercially market test kits.

The uncontroverted testimony in this case clearly shows that every procedure employed by respondent in manufacturing its kits is in the public domain. The Center for Disease Control publishes the step by step procedure for the toxoplasmosis kit, appellant has publicized the ANA information which is equally applicable to the Herpes kit and numerous competitors market kits which work as well or better than respondent's. The early detection of diseases allows for more successful treatment and competition as well

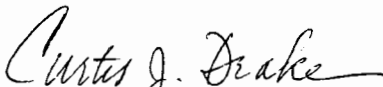
as the free exchange of information among medical supply manufacturers and should be encouraged.

To overcome the foregoing facts respondent relies on the testimony of two microbiologists. Neither of these scientists have any idea whatsoever how respondent's competitors manufacture their kits and in fact, cannot say that the competitors do not use the same equipment and formulas as respondent. Their testimony merely establishes that they have never before observed certain techniques and formulas which respondent uses. Not only are they unfamiliar with respondent's formulas, they have no idea what effect the ingredients have on the product. It is submitted that this type of testimony is totally insufficient to overcome the evidence that each and every method and formula used by respondent is either in the public domain or was used by appellant and numerous other scientists long before respondent.

Respectfully submitted,



STEVEN D. LUSTER

  
Curtis J. Drake

CURTIS J. DRAKE

Attorneys for Appellant

APPENDIX "A":

EMPLOYMENT AGREEMENT <sup>HERBERT W. WALKER, Clerk</sup>  
County, Utah

THIS AGREEMENT, made this 25<sup>th</sup> day of February, 1978,  
between MICROBIOLOGICAL RESEARCH CORPORATION, a corporation,  
herein called "Micro", and N. M. MUNA, Ph.D., herein called  
"Muna",

WITNESSETH:

1. All previous employment agreements and understandings in connection therewith are hereby mutually terminated and settled.
2. Commencing on the date first written above, Micro employs Muna and Muna accepts such employment upon the terms and conditions herein set forth.
3. Muna agrees to act as a consultant and research microbiologist for Micro upon such problems and projects as the management of Micro shall specify, and shall be Dir. of Labs. (CDC).
4. Micro shall pay to Muna the sum of \$17.00 per hour, payable semi-monthly, for such consulting and research work. When not engaged in consulting work, Muna shall pursue the designated research projects and shall devote as much time to said employment as his health permits, but not to exceed 40 hours per week, without prior written permission.
5. Muna shall be entitled to vacations, sick-leave, and medical insurance coverage as though he were a full-time employee.
6. During the term of this agreement Muna shall not

act as consultant for, or accept employment from any competitor of Micro nor shall he compete directly or indirectly with Micro.

7. Micro shall be the owner of all the research data, ideas and material discovered or developed at Micro by Muna during the term hereof. (Feb. 28, 1978) <sup>71 11.</sup> *egm*.

8. This agreement shall continue in effect unless terminated by thirty days advance written notice of either party.

MICROBIOLOGICAL RESEARCH CORPORATION

By Edward J. Masood  
MICRO

N. M. Muna, Ph.D.  
N. M. MUNA, Ph.D.

MUNA

## APPENDIX "B"

(Appendix "B" has been reproduced on letter size paper instead of its original legal size to correspond to the size of the pages of this brief.)

### MANAGEMENT CONTRACT

Utah

THIS AGREEMENT, made and entered into this 4th day of September, 1968, by and between DR. NADEEM M. MUNA, hereinafter referred to as "Muna", and MICROBIOLOGICAL SCIENCES, INC., a Utah corporation, hereinafter referred to as "Company";

#### WITNESSETH:

FOR AND IN CONSIDERATION of the mutual covenants herein contained, the parties hereto mutually agree as follows:

1. The Company hereby employs Muna as its President and General Manager for a period of five (5) years from the date hereof, and thereafter, from year to year, unless terminated by either party hereto by written notice at least sixty (60) days prior to any anniversary date of this Agreement.

2. During the term hereof, Muna agrees to and shall devote his full time and efforts to the customary duties of a president and general manager for the benefit of the Company.

3. Any and all developments, processes, inventions, and/or procedures developed, invented or processed by Muna during the term of this agreement shall belong to and be the sole and absolute property of the Company.



4. The Company shall pay Muna a basic salary of Twelve Thousand Dollars (\$12,000.00) per annum, payable in equal monthly installments, for all services to be rendered by Muna for the Company. The Company shall also reimburse Muna for all expenses incurred by him in furtherance of the business of the Company, approved by the Board of Directors of the Company.

5. Muna agrees that the Company may, from time to time, apply for and take out in its own name and at its own expense life, health, accident, or other insurance upon Muna that the Company may deem necessary or advisable to protect its interests hereunder; and Muna agrees to submit to any medical or other examination necessary for such purpose and to assist and cooperate with the Company in procuring such insurance; and Muna agrees that he shall have no right, title or interest in and to such insurance.

6. Muna agrees that during the terms of this Agreement he will not engage in any other commercial activity in any way competitive with the business of the Company, or its affiliated companies, and that, for a period of five (5) years after leaving the employ of the Company, he will not engage in any way, directly or indirectly, in any business competitive with the Company or its affiliated companies in any state in which any of them do business. Muna further agrees that he will not disclose to any other person any information which is the property of the Company or its affiliated companies.

7. This Agreement shall cease and terminate if the Company shall discontinue its business, and all rights and liabilities hereunder shall cease.

#### Appendix

8. The Company shall have a right to assign this contract to its successors or assigns and all covenants and agreements hereunder shall inure to the benefit of and be enforceable by or against its said successors or assigns. The term "successor and assign" shall include any corporation which buys all or substantially all of the Company's assets, or all of its stock, or with which it merges or consolidates.

9. Any waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.

10. This Agreement shall be construed in accordance with the laws of the State of Utah.

IN WITNESS WHEREOF, this Agreement is executed the day and year first hereinabove written.

MICROBIOLOGICAL SCIENCES, INC.

ATTEST:

By \_\_\_\_\_  
Vice President

  
\_\_\_\_\_  
Secretary

  
\_\_\_\_\_  
Dr. Nadeem M. Muna

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