EFiled: Jul 11 2012 10:36AM EDT
Transaction ID 45261930
Case No. 7266-VCG

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

NUVASIVE, INC., a Delaware corporation,	)	
	)	
Plaintiff,	)	
	)	
v.	)	*Civil Action No. 7266-VCG*
	)	
LANX, INC., a Delaware corporation	)	
	)	
Defendant.	)	

MEMORANDUM OPINION

Date Submitted: July 3, 2012
Date Decided: July 11, 2012

John L. Reed and Scott B. Czerwonka, of DLA PIPER LLP, Wilmington, Delaware; OF COUNSEL: Noah Katsell and John E. Fitzsimmons, of DLA PIPER LLP, San Diego, California, Attorneys for Plaintiff.

Jon E. Abramczyk, Kevin M. Coen, and Adam M. Kress of MORRIS, NICHOLS, ARSHT & TUNNELL LLP, Wilmington, Delaware; OF COUNSEL: William Leone and Matthew Spohn, of FULBRIGHT & JAWORSKI, L.L.P., Denver, Colorado; Tricia Wisenbaker Macaluso, of FULBRIGHT & JAWORSKI, L.L.P., Dallas Texas, Attorneys for Defendant.

GLASSCOCK, Vice Chancellor

This is my decision on the Defendant's motion to dismiss for failure to join indispensable parties. The Plaintiff has chosen to sue the Defendant in Delaware for claims involving the Defendant's involvement in alleged breaches of contract by the Plaintiff's former employees, now employees of the Defendant. The Plaintiff and the Defendant are Delaware corporations, but none of the acts complained of took place here. Jurisdiction over the Plaintiff's former employees is unavailable in Delaware. The Plaintiff seeks injunctive relief, as well as damages. Because that injunctive relief may affect interests of the Plaintiff's former employees, they are necessary parties to this litigation. Because in equity I may take the Plaintiff's former employees' interests into account when considering whether to grant injunctive relief as well as the scope of any such relief, I find that the Plaintiff's former employees are not indispensable to this litigation, and the Defendant's motion to dismiss or stay is, accordingly, denied.

I. FACTS

This matter involves two Delaware medical corporations, NuVasive, Inc., ("NuVasive") and Lanx, Inc. ("Lanx"). NuVasive alleges that Lanx improperly persuaded NuVasive employees and a NuVasive consultant, Dr. Andrew Cappuccino (collectively, the "former NuVasive Employees"), to leave NuVasive and work for Lanx instead. NuVasive argues that Lanx induced the employees to breach various agreements that the employees had with NuVasive and to

misappropriate NuVasive's trade secrets and other proprietary information. NuVasive also asserts that Lanx aided and abetted breaches of fiduciary duty by the former NuVasive employees. NuVasive contends that Lanx took these actions as a short cut to avoid having to develop its own business. Accordingly, NuVasive has brought claims for unfair competition, tortious interference with contractual relations, tortious interference with prospective contractual relations, aiding and abetting breach of fiduciary duty, civil conspiracy, and misappropriation of trade secrets.

While NuVasive seeks monetary damages and an injunction preventing the "Defendants [sic] from engaging in the actionable behavior alleged,"[1] NuVasive has brought suit against Lanx only. Lanx contends that the former NuVasive employees are necessary and indispensable parties to this action because NuVasive's claims are predicated upon their acts. Lanx has moved to dismiss pursuant to Court of Chancery Rule 12(b)(7), which allows a defendant to move for dismissal because of a failure to join an indispensable party under Rule 19.[2]

[1] Am. Compl. ¶ 111.
[2] Ch. Ct. R. 12(b)(7). In the alternative, Lanx requests a stay of this action pending disposition of related litigation in Texas and California. Since I find that the former NuVasive employees are not indispensable to the litigation, I find no grounds for a stay.

II. ANALYSIS

A. Standard of Review

Under Rule 19(a), the court must determine whether an absent person is a necessary party to the litigation. In particular, Rule 19(a)(2) provides that a party should be joined, if feasible, if

> the person claims an interest relating to the subject of the action and is so situated that the disposition of the action in the person's absence may (i) as a practical matter impair or impede the person's ability to protect that interest or (ii) leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the claimed interest.[3]

If an absent party is deemed necessary and cannot be joined, the court must then "determine whether in equity and good conscience the action should proceed among the parties before it, or should be dismissed, the absent person being thus regarded as indispensable."[4] Rule 19(b) provides four factors for the court to consider in determining if a necessary party is indispensable to the action:

> First, to what extent a judgment rendered in the person's absence might be prejudicial to the person or those already parties; second, the extent to which, by protective provisions in the judgment, by the shaping of relief, or other measures, the prejudice can be lessened or avoided; third, whether a judgment rendered in the person's absence will be adequate; fourth, whether the plaintiff will have an adequate remedy if the action is dismissed for nonjoinder.[5]

[3] Ch. Ct. R. 19(a).
[4] Ch. Ct. R. 19(b).
[5] *Id*.

Neither party has asserted that the absent parties are subject to personal jurisdiction in Delaware or could otherwise be joined. Accordingly, the issues are whether the absent parties are necessary and, if so, whether the absent parties are indispensable to this litigation.

The unfair competition, tortious interference with contractual relations, tortious interference with prospective contractual relations, and civil conspiracy claims (the "Contract-Based Claims") are premised, at least in some part, upon whether the former NuVasive employees breached their non-competition agreements, non-solictation agreements, or other contractual agreements with NuVasive (the "Agreements").[6] For the reasons that I explain below, I find that while the former NuVasive employees are necessary parties to the litigation concerning the Contract-Based Claims, they are not indispensable parties because, to the extent necessary to protect the rights of the absent parties, I may deny NuVasive injunctive relief.

Additionally, the former NuVasive employees are not necessary parties for the claims based on aiding and abetting a breach of fiduciary duty and trade secret misappropriation.

[6] *See generally* Am. Compl. ¶¶ 71, 76, 79, 80, 86, 101.

B. The Contract-Based Claims

1. Necessary Parties

In determining whether the former NuVasive employees are necessary parties, I look to Rule 19(a)(2) to determine whether going forward in the former NuVasive employees' absence will impair their interests or leave them subject to inconsistent obligations. While NuVasive asserts that the former NuVasive employees are not necessary parties to this litigation for numerous reasons, I find that a resolution of the Contract-Based Claims will impair the former NuVasive employees' rights. This prejudice arises from NuVasive's request to enjoin Lanx from employing the absent parties in a way that breaches the Agreements.

The Contract-Based Claims depend, in part, on a finding that the former NuVasive employees breached the Agreements. NuVasive contends that the former NuVasive employees have entered employment agreements with Lanx in which each employee has agreed to honor all post-employment obligations owed to NuVasive under the Agreements.[7] NuVasive alleges that a decision in the former NuVasive employees' absence will not impair or alter their rights because NuVasive "would have no cause of action against Lanx or the former NuVasive personnel if those parties adhered to the language in the former NuVasive

[7] An. Br. Pl. NuVasive, Inc. Opp'n Lanx, Inc.'s Mot. Dismiss Stay 9. [hereinafter "NuVasive's An. Br. ____"].

personnel's agreements with Lanx which specifically state they will comply with their post-employment obligations to NuVasive."[8] NuVasive argues, therefore, that injunctive relief in this case would only hold the former NuVasive employees to the terms of their contracts with Lanx and that this relief would have no detrimental effect on their continued employment with Lanx. This analysis begs the question of the scope of the limitation imposed on the former NuVasive employees by the Agreements. That issue will necessarily be before this Court in the Contract-Based Claims, and it is in my determination of the breadth of the restrictions on their employment with Lanx that the former NuVasive employees have an interest. To protect their current and future employment, these employees have an interest in ensuring that the Agreements are narrowly read. If I broadly read the Agreements, and in doing so find that the former NuVasive employees breached the Agreements, these employees could lose their ability to work in certain areas or their jobs could be otherwise affected.

This Court's decision in *Miles, Inc. v. Cookson America, Inc.*, is distinguishable.[9] In *Miles*, the plaintiff alleged that the defendants hired six of the plaintiff's former employees and that these former employees misappropriated the plaintiff's trade secrets.[10] The plaintiff sought:

---

[8] *Id.* at 9.
[9] *Miles, Inc. v. Cookson Am., Inc.*, 1994 WL 114867 (Del. Ch. Mar. 3, 1994).
[10] *Id.* at *1.

> (1) an order enjoining [the defendants] from using or disclosing the secret processes of [the plaintiff]; (2) an order enjoining [the defendants] from further inducing the Former Employees to breach their obligations owed to [the plaintiff] by disclosing or using [the plaintiff's] secret processes; (3) damages caused by the alleged misappropriation; and (4) an order requiring [the defendants] to deliver to [the plaintiff], or to destroy, any information relating to [the plaintiff's] secret processes.[11]

The *Miles* defendants argued that the former employees were necessary parties to the litigation. The defendants asserted that if the court found them liable, "an injunction against defendants could force dismissal of the former employees and inhibit their employability by others."[12] The court noted that: "[I]t is difficult to understand [the defendants'] argument that it, as the alleged misappropriator of [the plaintiff's] trade secrets, might be forced to dismiss the [plaintiff's former employees] as a result of an injunction against it in this suit. This argument seems to imply that the only reason the [plaintiff's former employees] have jobs at [the defendant] is because of a misappropriation."[13] In other words, the court rejected the argument that there was a direct nexus between the injunctive relief sought and the legitimate employment interests of the absent parties. Accordingly, the court held that the former employees were not necessary parties.[14]

---

[11] *Id.*
[12] *Id.* at *2.
[13] *Id.* at *3.
[14] *Id.*

With respect to the Contract-Based Claims, the value added by the former NuVasive employees to Lanx is not necessarily dependent upon NuVasive's intellectual property or trade secrets. NuVasive contends that it spends considerable time and money developing and training its employees.[15] The former NuVasive employees' value to Lanx could be based on the training and expertise funded by NuVasive that does not inevitably flow from NuVasive's proprietary information; however, the quid pro quo for receiving this investment from NuVasive was that the former NuVasive employees agreed, via the Agreements, to limit their future employment possibilities with third parties. As I stated above, the question of what it means for the former NuVasive employees to comply with their post-employment obligations to NuVasive, as set forth in the Agreements, is at issue here; therefore, the *Miles* rationale is not dispositive here.

NuVasive argues that Lanx can litigate in the former NuVasive employees' interest. "An action may continue without an absent party if that party's interest is fully represented therein,"[16] but the former NuVasive employees' interests are not necessarily fully represented by Lanx. Lanx certainly has an interest in retaining its employees and protecting itself from liability; however, if Lanx views the former NuVasive employees as more-or-less fungible, Lanx's interest in litigating this

[15] Am. Compl. ¶¶ 6, 16.
[16] *RJ Assocs., Inc. v. Health Payors' Org. Ltd. P'ship, HPA, Inc.*, 1999 WL 550350, at *7 (Del. Ch. July 16, 1999).

action and ensuring that the Agreements are narrowly interpreted could be less than the former NuVasive employees' interest. In regard to the Contract-Based Claims, I find, therefore, that the former NuVasive employees' interest in the subject matter is not fully represented by Lanx.

2. Indispensable Parties

A ruling from this Court imposing the injunctive relief sought by NuVasive could affect the former NuVasive employees' livelihood and future employment prospects; therefore, they are necessary parties to this litigation.

Having found that the former NuVasive employees are necessary parties, I must now determine whether they are indispensable parties to the litigation under the four factors of Rule 19(b). These four factors "are interdependent and must be considered in relation to each other as well as to the facts of each case."[17] As explained below, I find that the former NuVasive employees are not indispensable parties because of my ability to craft a remedy which protects the rights of the absent parties.

a. Will a Judgment Here be Adequate, and is an Adequate Remedy Available Elsewhere?

First, I dispense with two of the Rule 19(b) factors, finding that they are of little import here. Rule 19(b) directs me to determine whether a judgment rendered

[17] *Council of Civic Orgs. of Brandywine Hundred, Inc. v. New Castle Cnty.*, 1993 WL 390543, at *1, *3 (Del. Ch. Sept. 21, 1993).

without the absent person will be adequate.[18] "Considerations of judicial economy and the public interest in complete and consistent settlement of controversies impact on the analysis of this factor."[19] "In other words, will this suit, if permitted, encourage piecemeal litigation, or otherwise be undesirable."[20]

The issues underlying the claims before this Court are already being actively litigated in federal court in California and federal and state courts in Texas. Requiring separate suits in jurisdictions where each former NuVasive employee is subject to jurisdiction would encourage, not limit, piecemeal litigation. There is no perfect venue in which all the necessary parties are subject to jurisdiction.

Similarly, Rule 19(b) directs me to consider whether NuVasive will have a remedy if this suit is dismissed. Depending on the claim, NuVasive may have a remedy in some other jurisdiction against Lanx; however, this fact is not certain. What is certain is that NuVasive and Lanx are both Delaware corporations and subject to Delaware jurisdiction.

b. Potential Prejudice

Rule 19(b) directs me to address "to what extent a judgment rendered in the person's absence might be prejudicial to the person or those already parties."[21]

---

[18] Ch. Ct. R. 19(b).
[19] *Brandywine Hundred*, 1993 WL 390543, at *6.
[20] *Makitka v. New Castle Cnty. Council*, 2011 WL 6880676, at *6 (Del. Ch. Dec. 23, 2011).
[21] Ch. Ct. R. 19(b).

The considerations under this Rule 19(b) factor are similar to those used to determine whether the former NuVasive employees are necessary parties to the litigation. NuVasive maintains that a judgment in NuVasive's favor will not prejudice the former NuVasive employees because:

> [1. it] will not affect the former NuVasive personnel's stated job duties as the terms of their employment require them to comply with their post-employment obligations to NuVasive; [2.] a judgment against Lanx will not have a *res judicata* or collateral estoppel effect on claims against the former NuVasive personnel; and [3.] Lanx is adequately representing the former NuVasive personnel's rights in this case.[22]

NuVasive has stated numerous times that a judgment here will not have a preclusive effect on any future litigation against the former NuVasive employees.[23] I find, therefore, that NuVasive would be judicially estopped from arguing that any judgment in this case has a *res judicata* or collateral estoppel effect on claims against the former NuVasive employees in other litigation.

On the other hand, I find that the former NuVasive employees would still be prejudiced by the relief sought by NuVasive. As noted above, while the former NuVasive employees' job duties require them to comply with their post-employment obligations to NuVasive, the terms of this compliance and what effect it will have on their future employment may depend on how I interpret the Agreements. Furthermore, as I also mentioned above, while Lanx's interest may

[22] NuVasive's An. Br. 14.
[23] *See generally id.* at 10, 14.

align with the former NuVasive employees' interests, this alignment is not perfect and the former NuVasive employees may have a greater interest than Lanx in maintaining the status quo.

Accordingly, I find that the former NuVasive employees' interests are not adequately protected by Lanx and that a judgment in their absence, leading to the injunctive relief NuVasive seeks, could be prejudicial.

c. Can Prejudice be Avoided?

The remaining factor of the Rule 19(b) analysis is "the extent to which, by protective provisions in the judgment, by the shaping of relief, or other measures, the prejudice can be lessened or avoided."[24]

NuVasive asserts that this Court can shape relief which lessens or avoids prejudice to the former NuVasive employees because NuVasive has altered its litigation strategy from seeking a *preliminary* injunction to one in which its primary focus is on collecting monetary damages from Lanx. NuVasive points out that a damages award paid by Lanx would not affect the former NuVasive employees, and argues that even though NuVasive continues to seek a permanent injunction, this Court could craft an injunctive remedy which simply prevents the former NuVasive employees from committing acts which would violate their contractual commitments to NuVasive.

[24] Ch. Ct. R. 19(b).

Though NuVasive is no longer seeking a *preliminary* injunction, it is still seeking a *permanent* injunction. An injunction that prevents the former NuVasive employees from simply not committing acts which violate their contractual agreements could not be done without an interpretation of the Agreements. Moreover, this injunction could alter the employment relationship that currently exists between the former NuVasive employees and Lanx.

On the other hand, I could craft a remedy which would protect the interests of the absent parties. I have broad discretion to fashion an injunction which will protect the rights of those parties.[25] I could protect the rights of the absent parties by declining to enter injunctive relief or by crafting an injunction more limited in scope than that sought by NuVasive.[26] Moreover, an award against Lanx for monetary damages alone would not prejudice the former NuVasive employees. An award for monetary damages would not bar the former NuVasive employees from working for Lanx or prevent them from working in certain geographic regions or trade fields. In other words, NuVasive has chosen this forum knowing that its former employees were unavailable here. NuVasive may go forward here without

[25] *Reserves Dev. LLC v. Severn Savs. Bank*, 961 A.2d 521, 525 (Del. 2008) ("The Court of Chancery has broad discretion to fashion equitable relief."); *Concord Steel, Inc. v. Wilmington Steel Processing Co., Inc.*, 2008 WL 902406, at *3 (Del. Ch. Apr. 3, 2008) (The Court of Chancery has "broad discretion in granting or denying a preliminary injunction.").
[26] *See generally Russell v. Morris*, 1990 WL 15618, at *7 (Del. Ch. Feb. 14, 1990).

the absent parties knowing that I may not fully grant the injunctive relief that it seeks, based on the equitable considerations mentioned above.

After weighing all the Rule 19(b) factors, I find that the former NuVasive employees are not indispensable parties to the litigation for the Contract-Based Claims because I am able to deny NuVasive the ability to obtain unduly prejudicial injunctive relief. Cognizant of this caveat, NuVasive may press forward with the Contract-Based Claims as it sees fit.

C. The Non-Contract-Based Claims

1. Aiding and Abetting Breach of Fiduciary Duty

NuVasive's next claim against Lanx is for aiding and abetting breach of fiduciary duty. NuVasive alleges that the former NuVasive employees owed it a fiduciary duty, that the former NuVasive employees breached this duty, and that Lanx aided and abetted this breach. I cannot easily ascertain the prejudice that would result to the former NuVasive employees if I found that they breached their fiduciary duties to NuVasive. A finding by this Court would not limit what employment the former NuVasive employees could take and would not alter their relationship with Lanx. As stated above, based on representations relied on here, NuVasive is estopped from arguing *res judicata* or collateral estoppel against the absent parties in subsequent litigation. A possible harm that could arise is

reputational damage to the former NuVasive employees, but this harm is not sufficient to render the former NuVasive employees necessary parties.[27]

Accordingly, the former NuVasive employees are not necessary parties pursuant to Rule 19(a) for the aiding and abetting breach of fiduciary duty claim.

2. Trade Secret Misappropriation

To bring a trade secret misappropriation claim, the acquirer of the trade secret must know or have reason to know "that the trade secret was acquired by improper means . . . [or d]erived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use."[28] Lanx argues that the former NuVasive employees are necessary parties to the litigation because "[a]s with every other allegation in the Complaint, Lanx can only be liable for trade secret misappropriation if the Court concludes that Dr. Cappuccino and/or the former NuVasive employees first improperly acquired or disclosed those trade secrets to Lanx."[29]

Even though I would have to first decide whether the former NuVasive employees improperly acquired or disclosed trade secrets, as discussed above, *Miles* addressed this precise argument and the rationale

[27] *Miles*, 1994 WL 114867, at *1-*3.
[28] 6 *Del. C.* § 2001.
[29] Lanx's Mot. Dismiss 18.

behind that decision is directly applicable to the situation before me. My decision would only affect the former NuVasive employees' employment prospects with Lanx to the extent that their employment actually does rely on the misappropriation of trade secrets. Accordingly, the former NuVasive employees are not necessary parties for the trade secret misappropriation claim.

III. CONCLUSION

For the reasons above, Lanx's Motion to Dismiss is Denied. An appropriate Order shall be filed implementing this Opinion.