

EXHIBIT 30



LEXSEE 2008 U.S. DIST. LEXIS 28602



Warning
As of: Mar 29, 2010

**BINARY SEMANTICS LIMITED, BINARY SEMANTICS, INC., Plaintiffs, v.
MINITAB, INC., et.al., Defendants.**

Civil Action No. 4:07-CV-1750

**UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF
PENNSYLVANIA**

2008 U.S. Dist. LEXIS 28602

**March 20, 2008, Decided
March 20, 2008, Filed**

SUBSEQUENT HISTORY: Reconsideration granted by, in part, Vacated by, in part *Binary Semantics Ltd. v. Minitab, Inc.*, 2008 U.S. Dist. LEXIS 36575 (M.D. Pa., May 1, 2008)

COUNSEL: [*1] For Binary Semantics Limited, an Indian corporation, Binary Semantics Inc., a New Jersey corporation, Plaintiffs: Ashish S. Joshi, Demosthenes A. Lorandos, LEAD ATTORNEYS, Lorandos & Associates, Ann Arbor, MI; Robert B. Gidding, LEAD ATTORNEY, Law offices of Robert Gidding, Bala Cynwyd, PA.

For Minitab, Inc., a Pennsylvania corporation, Barbara Ryan, Bruce Pincus, Patrick Sheehan, Defendants: Daniel R. Slawe, LEAD ATTORNEY, WolfBlock LLP, Philadelphia, PA; David E. Landau, Patrick Troy, LEAD ATTORNEYS, Wolf Block Schorr and Solis-Cohen LLP, Philadelphia, PA.

For Asha Gopinath Menon, Defendant: George B. Faller, Jr., Martson Deardorff Williams Otto Gilroy & Faller, Carlisle, PA; Ralph A. Jacobs, PRO HAC VICE, Ralph A. Jacobs & Associates LLC, Philadelphia, PA.

JUDGES: JAMES F. McCLURE, JR., United States District Judge.

OPINION BY: JAMES F. McCLURE, JR.

OPINION

MEMORANDUM

March 20, 2008

BACKGROUND:

On September 25, 2007, plaintiffs Binary Semantics Limited and Binary Semantics Inc. (collectively "Binary") commenced this civil action with the filing of a complaint against defendants Minitab, Inc., Barbara Ryan, Bruce Pincus, Patrick Sheehan, Asha Gopinath Menon, Malvinder Singh, and John Does 1-10. In its complaint, Binary [*2] sets forth causes of action based upon the Racketeer Influenced and Corrupt Organizations Act (Counts I and II), the Computer Fraud and Abuse Act

(Count III), Unlawful Use of a Computer under the Pennsylvania Penal Code (Count IV), Computer Theft under the Pennsylvania Penal Code (Count V), Unlawful Duplication under the Pennsylvania Penal Code (Count VI), Computer Trespass under the Pennsylvania Penal Code (Count VII), Theft of Trade Secrets under the Pennsylvania Penal Code (Count VIII), Intentional Interference with Prospective Economic Advantage (Count IX), Negligent Interference with Prospective Economic Advantage (Count X), Unfair Competition (Count XI), Procuring Information by Improper Means (Count XII), Conversion (Count XIII), Unjust Enrichment/Restitution (Count XIV), Fraud (Count XV), Fraud/Fraudulent Inducement (Count XVI), Breach of Fiduciary Duty (Count XVII), Civil Conspiracy (Count XVIII), and claim for "An Accounting" (Count XIX).

On December 17, 2007, defendants Minitab, Barbara Ryan, Bruce Pincus, and Patrick Sheehan (collectively "the Minitab defendants") filed a motion to dismiss. (Rec. Doc. No. 18.) Opposing and reply briefs have been filed and the matter is ripe [*3] for disposition. Now, for the following reasons, the court will grant in part and deny in part the motion.

DISCUSSION:

I. Motion to Dismiss Standard

When considering a motion to dismiss under *Federal Rule of Civil Procedure 12(b)(6)*, the court must view all allegations stated in the complaint as true and construe all inferences in the light most favorable to plaintiff. *Hishon v. King & Spalding*, 467 U.S. 69, 73, 104 S. Ct. 2229, 81 L. Ed. 2d 59 (1984); *Kost v. Kozakiewicz*, 1 F.3d 176, 183 (3d Cir. 1993). In ruling on such a motion, the court primarily considers the allegations of the pleading, but is not required to consider legal conclusions alleged in the complaint. *Kost*, 1 F.3d at 183. At the motion to dismiss stage, the court considers whether plaintiff is entitled to offer evidence to support the allegations in the complaint. *Maio v. Aetna, Inc.*, 221 F.3d 472, 482 (3d Cir. 2000). A complaint should only be dismissed if, accepting as true all of the allegations in the complaint, plaintiff has not plead enough facts to state a claim to relief that is plausible on its face. *Bell Atlantic Corp. v. Twombly*, 127 S.Ct. 1955, 1960, 167 L. Ed. 2d 929 (2007).

The failure-to-state-a-claim standard of *Rule 12(b)(6)* "streamlines litigation by dispensing [*4] with needless discovery and factfinding." *Neitzke v. Williams*, 490 U.S.

319, 326-27, 109 S. Ct. 1827, 104 L. Ed. 2d 338 (1989). A court may dismiss a claim under *Rule 12(b)(6)* where there is a "dispositive issue of law." *Id.* at 326. If it is beyond a doubt that the non-moving party can prove no set of facts in support of its allegations, then a claim must be dismissed "without regard to whether it is based on an outlandish legal theory or on a close but ultimately unavailing one." *Id.* at 327.

II. Allegations in the Complaint

The following allegations are taken from Binary's lengthy complaint. (Rec. Doc. No. 1.) Defendant Minitab is a software development company. (*Id.* P 2.) Plaintiff Binary is an Indian company that sells and supports software to the Indian market. (*Id.* P 1.) In 1999, Minitab began utilizing Binary's services to distribute Minitab products in India. (*Id.* P 3.) In 2001, Binary and Minitab entered into a contract whereby Binary would promote, market, and sell its products and licenses in India and would also offer maintenance, support, and servicing for Minitab's products. (*Id.* P 4.) The contract could be renewed yearly by the parties and could be terminated by either party for any reason upon thirty-days [*5] written notice. (*Id.* PP 6, 63.)

In early 2007, Minitab decided to open offices in India to promote its products and services directly to the end-users and avoid paying fees to Binary. (*Id.* PP 15-16.) Still, Minitab realized that opening such an office would take a long period of time and would require knowledge of the Indian market place and experience in promoting and selling software products and services in India. (*Id.* P 17.) Therefore, plaintiff alleges that Minitab decided to target defendant Asha Gopinath Menon, an employee of Binary, and induce her to come to Minitab and bring other Binary employees. (*Id.* P 18.) Minitab also induced Menon to steal Binary's trade secrets and give them to Minitab. (*Id.*) Plaintiff further alleges that Menon took certain confidential and proprietary information from Binary at Minitab's direction and gave it to Minitab. (*Id.* P 143.) On June 20, 2007, after receiving the information from Menon, Minitab terminated the contract. (*Id.* P 154.) The same day, Minitab publicly announced its intention to open offices in India. (*Id.* P 155.)

III. Defendants' Motion to Dismiss

In their motion, the Minitab defendants essentially argue that plaintiff fails to state [*6] a claim with respect

to each count of the complaint.

A. RICO Claims

Defendants argue that plaintiff fails to state a claim with respect to plaintiff's RICO claim in Count I and its RICO conspiracy claim in Count II of the complaint. (Rec. Doc. No. 19, at 12-20.) Specifically, defendants argue that plaintiff has not alleged a pattern of racketeering activity or injury. (*Id.*)

18 U.S.C. § 1964(c) states that "[a]ny person injured in his business or property by reason of a violation of section 1962 of this chapter may sue therefor in any appropriate United States district court. . ." Thus, to prove a civil RICO claim, a plaintiff must establish: 1) a violation of 18 U.S.C. § 1962; 2) an injury to the plaintiff's business or property; and 3) that the RICO violation was the proximate cause of the injury. *Holmes v. Securities Investor Protection Corp.*, 503 U.S. 258, 265-268, 112 S. Ct. 1311, 117 L. Ed. 2d 532 (1992); *Dongelewicz v. First Eastern Bank*, 80 F.Supp.2d 339, 344 (M.D.Pa. 1999) (McClure, J.) (citations omitted). To establish a violation of § 1962, a plaintiff must prove: 1) the conduct 2) of an enterprise 3) through a pattern 4) of racketeering activity. *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 496, 105 S. Ct. 3275, 87 L. Ed. 2d 346 (1985); *Dongelewicz*, 80 F.Supp.2d at 344-45 [*7] (citation omitted).

A "pattern of racketeering activity" is the occurrence of at least two acts of racketeering activity, known as predicate acts and enumerated in the statute, within a period of ten years. *Dongelewicz*, 80 F.Supp.2d at 345 (citation omitted). Furthermore, plaintiff must show that the predicate acts are *related* and that they amount to or pose a threat of *continued* criminal activity. *Kehr Packages, Inc. v. Fidelcor, Inc.*, 926 F.2d 1406, 1412 (quoting *H.J. Inc. v. Northwestern Bell Telephone Co.*, 492 U.S. 229, 239, 109 S. Ct. 2893, 106 L. Ed. 2d 195 (1989)). In other words, to establish a pattern of racketeering activity, a plaintiff must satisfy both a relatedness and a continuity test. *Id.* Predicate acts are related when they have "the same or similar purposes, results, participants, victims, or methods of commission, or otherwise are interrelated by distinguishing characteristics and are not isolated events." *Hughes v. Consol-Pennsylvania Coal Co.*, 945 F.2d 594, 609 (3d Cir. 1991) (quoting *H.J. Inc.*, 492 U.S. at 239-40). Furthermore, continuity is "both a closed- and open-ended conduct, referring to a closed period of

repeated conduct, or to past conduct that by its nature projects into the future with [*8] a threat of repetition." *Id.* (quoting *H.J. Inc.*, 492 U.S. at 241). To establish "closed-ended" continuity, the predicate offenses must occur over a "substantial period of time." *Id.* (quoting *H.J. Inc.*, 492 U.S. at 242). To establish "open-ended" continuity, there must be a "threat of continuity." *Id.* at 609-10 (quoting *H.J. Inc.*, 492 U.S. at 241). A "threat of continuity" exists when the predicate acts are defendant's "regular way of doing business" and defendant operates a "long-term association that exists for criminal purposes." *Id.* at 610 (quoting *H.J. Inc.*, 492 U.S. at 241).

Defendants' primary argument with respect to plaintiff's RICO claim is that plaintiff has not alleged a pattern of racketeering activity because plaintiff is unable to establish the continuity requirement of such a claim. (Rec. Doc. No. 19, at 15-18.) We agree. Plaintiff is unable to establish closed-ended continuity because the complaint only alleges predicate acts that occur over the course of 6 months. Specifically, the earliest predicate acts are alleged to have occurred in "early 2007" when Minitab contacted defendant Menon to explore the possibility of her coming to work for Minitab and bringing trade [*9] secret information with her. (Rec. Doc. No. 1, PP 21, 23.) The latest predicate acts occur in June of 2007 with defendant Menon actually taking the trade secret information and bringing it to Minitab and Minitab's subsequently giving 30-days notice of termination of the contract with Binary. (*Id.* PP 132-60.) Thus, there is at most a period of activity of six months if we assume that "early 2007" is the beginning of January. As we have mentioned, under the closed-ended theory, the predicate acts must occur over a substantial period of time. We have reviewed various Third Circuit cases and find that the Third Circuit has consistently held that several periods of time longer than six months do not constitute a substantial period of time. *See Hughes*, 945 F.2d at 612 (holding that twelve months is not a substantial period of time); *Kehr Packages, Inc. v. Fidelcor*, 926 F.2d 1406, 1418 (3d Cir. 1991) (holding that eight months was not a substantial period of time); *Hindes v. Castle*, 937 F.2d 868, 875 (3d Cir. 1991) (eight month period not substantial). Furthermore, we note that we have been unable to find and plaintiff has not cited a single case from any district or circuit which has held [*10] that a period of time of six months or less is a substantial period of time under the closed-ended theory of continuity. Therefore, we find that the six month period of alleged predicate acts is insufficient to establish

continuity under a closed-ended theory.

Furthermore, we find that plaintiff is unable to satisfy the open-ended theory of continuity. Although plaintiff argues that there is a continuing threat of continuity based on the fact that defendants will continue to use plaintiff's trade secrets (Rec. Doc. No. 27, at 20-21), we do not find that this is sufficient to establish a "threat of continuity." As we have mentioned, a "threat of continuity" exists when the predicate acts are defendant's "regular way of doing business" and defendant operates a "long-term association that exists for criminal purposes." *Hughes*, 945 F.2d at 610 (quoting *H.J. Inc.*, 492 U.S. at 241). Plaintiff has cited two cases from districts outside of this circuit which have found that use of stolen trade secrets is sufficient to show a threat of continuity in circumstances similar to the allegations in the instant complaint. *General Motors Corp. v. Ignacio Lopez de Arriortua*, 948 F.Supp. 670, 678 (E.D.Mich. 1996); [*11] *Gould, Inc. v. Mitsui Mining & Smelting Co.*, 750 F.Supp. 838 (N.D.Ohio 1990). We respectfully disagree with the rulings of these courts, and believe that the use of stolen trade secrets is not sufficient to constitute a threat of continuity. As a preliminary matter, we believe that using trade secrets is quite different from the initial act of stealing them. In fact, we believe that the theft of trade secrets necessarily implies that they will be used. Therefore, under plaintiff's theory, every misappropriation of trade secrets could result in a RICO claim. This would surely expand the scope of the statute beyond what it was intended to reach. If plaintiff's complaint were to allege that defendants would continue to steal plaintiff's trade secrets, as opposed to use those which have already been stolen, then there may well be a threat of continuity, but that is not the case here. Furthermore, plaintiff has not addressed the multitude of cases from district courts within this circuit which have reached conclusions contrary to *General Motors* and *Gould*. See *Clement Communications, Inc. v. American Future Systems, Inc.*, Civ. No. 89-6280, 1990 U.S. Dist. LEXIS 9165, 1990 WL 106762 at * 6 (E.D.Pa. July 19, 1990) (McGirr [*12] Kelly, J.) (finding that use of allegedly stolen trade secrets not sufficient to constitute a threat of continued criminal activity); *Forbes v. Eagleson*, Civ. No. 95-7021, 1996 U.S. Dist. LEXIS 10583, 1996 WL 420829 at * 2 (E.D.Pa. July 23, 1996) (O'Neill, J.) (stating that "further use or profit from a previously obtained item would not constitute a further predicate act"); *National Risk Management, Inc. v. Bramwell*, Civ. No. 92-4366, 1992 U.S. Dist. LEXIS

18570, 1992 WL 368370 at * 4 (E.D.Pa. Dec. 3, 1992) (Newcomer, J.) (finding that mere fact that copyrighted material will be used in the future does not establish a threat of continued criminal activity); *Plater-Zyberk v. Abraham*, Civ. No. 97-3322, 1998 U.S. Dist. LEXIS 1736, 1998 WL 67545 at * 10 (E.D.Pa. Feb. 17, 1998) (Hutton, J.) (stating that "a plaintiff may not rely on the defendants' retention or use of his assets to establish open-ended continuity"). Therefore, we find that plaintiff is unable to establish continuity under an open-ended theory.

Having concluded that plaintiff's complaint is insufficient to establish the continuity of the predicate acts, we find that plaintiff has failed to state a claim under RICO because it has not alleged a pattern of racketeering activity. Furthermore, we note that Count [*13] II states a claim of conspiracy under RICO, which necessarily fails due to the failure to state a claim under RICO in Count I. Therefore, we will dismiss counts I and II of the complaint.

B. Computer Fraud and Abuse Act Claim

Defendants also argue that plaintiff has failed to state a claim under the Computer Fraud and Abuse Act ("CFAA") because plaintiff has failed to allege that any of the Minitab defendants accessed a protected computer. (Rec. Doc. No. 19, at 20-23.) Specifically, they argue that plaintiff has only alleged that defendant Asha accessed a protected computer, not any of the Minitab defendants. (*Id.* at 21-22.)

A claim under § 1030(a)(4) of the CFAA has four elements: 1) defendant accessed a protected computer; 2) without authorization or by exceeding such authorization as was granted; 3) did so "knowingly" and with "intent to defraud"; and 4) as a result has furthered the intended fraud and obtained anything of value. *P.C. Yonkers, Inc. v. Celebrations the Party and Seasonal Superstore, LLC.*, 428 F.3d 504, 508 (3d Cir. 2005) (citing 18 U.S.C. § 1030(a)(4)) (other citation omitted).

We believe that plaintiff's allegations are sufficient to state a claim under the CFAA against [*14] the Minitab defendants. Although the complaint alleges that defendant Asha was the individual who actually accessed the protected computer, the allegations make it clear that she was acting at the direction of Minitab when she did so. Specifically, the complaint alleges that Minitab targeted defendant Asha in an attempt to bring her and

other Binary employees as well as Binary's trade secrets to Minitab. (Rec. Doc. No. 1, P 18.) Furthermore, it alleges that defendant Asha did in fact steal plaintiff's trade secrets and did so by accessing a protected computer. (*Id.* PP 69-76, 235-40.) Finally, it alleges that these trade secrets were given to Minitab by Asha. (*Id.* PP 132-51.) Thus, we do not have the situation in which Minitab merely received information from a protected computer. Rather, the complaint sufficiently alleges that defendant Asha was acting at the direction of Minitab when she allegedly accessed plaintiff's protected computer and stole plaintiff's trade secrets. Therefore, we conclude that Minitab may be held liable for the CFAA violation. *See Role Models America, Inc. v. Jones*, 305 F.Supp.2d 564, 567-68 (D.Md. 2004) ("It would be a different case if Dr. Jones had acted [*15] as NSU's agent in accessing information on RMA's computers. For example, if NSU had told Dr. Jones to send e-mails to the defendant containing various trade secrets and proprietary information belonging to the plaintiff") (citation and internal quotation marks removed). Therefore, we will deny defendants' motion to dismiss as it relates to Count III of the complaint.

C. Pennsylvania Criminal Code Claims

Defendants argue that plaintiff does not have authority to charge defendants with crimes under the Pennsylvania Penal Code. (Rec. Doc. No. 19, at 23-26.) Specifically, defendants argue that private parties may only bring a criminal action if plaintiff receives approval from an attorney for the state. (*Id.* at 24.) In their opposition brief, plaintiff concedes that this is true. (Rec. Doc. No. 19, at 28-29.) Nevertheless, plaintiff seeks dismissal without prejudice in order to seek approval of their private complaint. (*Id.* at 29.)

We agree with defendants that under *Rule 506 of the Pennsylvania Rule of Criminal Procedure* private parties may only bring a criminal action in Pennsylvania with approval from an attorney for the state. Furthermore, we note that a plaintiff clearly cannot use a [*16] criminal statute as a basis for civil relief unless the statute explicitly permits a party to do so, which does not appear to be the case with any of these crimes. Therefore, we conclude that we do not have subject matter jurisdiction over Counts IV, V, VI, VII, and VIII of the complaint and will dismiss them.

D. Intentional Interference with Prospective Economic Advantage

Plaintiff's ninth count of the complaint is labeled as "Intentional Interference with Prospective Economic Advantage." (Rec. Doc. No. 1, at 66.) Defendants argue that plaintiff fails to state a claim under this theory of liability because it fails to plead the existence of an actual or prospective contractual relationship that was disrupted by defendants' actions. (Rec. Doc. No. 19, at 26-29.)

As a preliminary matter, we note this claim is best described under Pennsylvania law as one for tortious interference with contractual relations. To prevail on such a claim, plaintiff must establish: 1) an existing or prospective contractual relationship with a third party; 2) the purpose or intent to harm the plaintiff by preventing the relationship from continuing or occurring; 3) the absence of privilege or justification on [*17] the part of the defendant; and 4) actual damage resulting from the defendant's conduct. *CGB Occupational Therapy, Inc. v. RHA Health Services Inc.*, 357 F.3d 375, 384 (3d Cir. 2004).

In the complaint, plaintiff alleges that it "had an expectancy in continuing advantageous economic relationships with its current and prospective customers." (Rec. Doc. No. 1, P 272.) Furthermore, plaintiff alleges that "[h]ad defendants refrained from engaging in the unlawful and wrongful conduct described in this Complaint, there is a substantial probability that Plaintiff would have consummated these sales, licenses and support service contracts." (*Id.* P 273.) Plaintiff alleges that "Defendants intentionally interfered with and disrupted these economic relationships by engaging in wrongful acts as described elsewhere in this Complaint" and that "Defendants had no justification in engaging in this conduct." (*Id.* PP 275-76.) Finally, plaintiff alleges that they suffered harm due to defendants' actions. (*Id.* P 278.)

We note that it appears that the contacts to which plaintiff refers are apparently with companies who would be purchasing and licensing Minitab's software as well as requiring support for the [*18] software. Thus, plaintiff's theory is that when Minitab stole plaintiff's trade secrets and terminated their contract, plaintiff was no longer able to sell and license Minitab's products and therefore their contracts with these companies were disrupted.

On its face, it appears that plaintiff has pled the required elements of a claim for intentional interference with actual or prospective contractual relations. Nevertheless, we find that plaintiff's claim fails as a

matter of law. Defendants had an absolute right under the contract to terminate the contract for any reason with thirty-days notice. (Rec. Doc. No. 1, P 63.) Furthermore, plaintiff has alleged that defendants' goal in terminating the contract was to sell their products directly to the end-user and cut out the middle man, which was Binary. (*Id.* P 16.) Thus, it appears that defendants were well within their rights to terminate the contract and sell and license their product directly to the users. Furthermore, upon termination of the contract, plaintiff would no longer retain the right to sell and license defendants' products. In other words, when defendants terminated the contract, they likely did interfere with existing and [*19] potential contracts plaintiff had with users of defendants' products, but defendants had a right to do so under the contract. In fact, we find that it is likely the case that any time a producer of an item cuts out the middleman, it will interfere with the middleman's existing and potential contracts to sell that item. Furthermore, we believe the allegations that defendants may have accomplished this goal by stealing plaintiff's trade secrets is irrelevant to our consideration of this claim. Even if defendants stole plaintiff's trade secrets, this does not negate the fact that defendants clearly had a right to terminate the contract and sell and license their product directly to the end user. Any wrongdoing that may have facilitated plaintiff's ability to terminate the contract can be adequately addressed by challenging the legality of the underlying act, which plaintiff has done in this case. Therefore, we find that plaintiff has failed to state a claim for tortious interference with contractual relations and will dismiss Count IX of the complaint.

E. Negligent Interference with Prospective Economic Advantage

Plaintiff's tenth claim is labeled as "Negligent Interference with Prospective [*20] Economic Advantage." (Rec. Doc. No. 1, at 68.) In this count of the complaint, plaintiff claims that defendants negligently interfered with what appears to be the same contracts discussed in Count IX of the complaint. We find that this claim fails for the same reasons we have already concluded that plaintiff's claim for intentional interference with prospective economic advantage fails. Furthermore, we also note that we agree with defendants that Pennsylvania law does not recognize such a tort when the losses claimed are purely economical. (Rec. Doc. No. 19, at 30.) In *Aikens v. Baltimore & O. R. Co.*, 348 Pa. Super. 17, 501 A.2d 277, 278 (Pa. Super. Ct.

1985), the Pennsylvania Superior Court expressly adopted the *Restatement (Second) of Torts* § 766C. Section 766C states that "[o]ne is not liable to another for pecuniary harm not deriving from physical harm to the other, if that harm results from the actor's negligently (a) causing a third person not to perform a contract with the other, or (b) interfering with the other's performance of his contract or making the performance more expensive or burdensome, or (c) interfering with the other's acquiring a contractual relation with a third person." This count [*21] of the complaint appears to seek liability on exactly the type of negligent conduct discussed in § 766C. Therefore, we will dismiss Count X of the complaint.

F. Unfair Competition

Defendants also take issue with Count XI of the complaint, which sets forth a claim based on unfair competition. Specifically, defendants argue that plaintiff and defendants are not competitors and therefore cannot be held liable for unfair competition as matter of law. (Rec. Doc. No. 19, at 31-33.) Pennsylvania recognizes a common law claim of unfair competition as it exists under the Restatement (Third) of Unfair Competition. *Air Products and Chemicals, Inc. v. Inter-Chemical, LTD., et al.*, Civ. No. 03-6140, 2003 U.S. Dist. LEXIS 23985, 2003 WL 22917491, at * 12 (E.D.Pa. Dec. 2, 2003) (Davis, J.); *Fresh Made, Inc. v. Lifeway Foods*, Civ. No. 01-4254, 2002 U.S. Dist. LEXIS 15098, 2002 WL 31246922, at * 9 (E.D.Pa. Aug. 9, 2002) (McLaughlin, J.); *Synthes (USA) v. Globus Med., Inc.*, Civ. No. 04-1235, 2007 U.S. Dist. LEXIS 50812, 2007 WL 2043184, at * 9 (E.D.Pa. July 12, 2007) (Stengel, J.). The Restatement (Third) of Unfair Competition recognizes several types of claims that may give rise to a claim of unfair competition: 1) deceptive marketing; 2) infringement of a trademark; 3) appropriation of [*22] trade secrets; or 4) acts or practices actionable under federal or state statutes. *Id.* § 1.

At first glance, it appears that plaintiff has stated a claim for unfair competition because it has alleged that defendants misappropriated trade secrets. Nevertheless, we find that plaintiff's unfair competition claim fails as a matter of law. This is because we agree with defendants' argument that plaintiff and defendants are not competitors and therefore defendants cannot be found to be unfairly competing with plaintiff. Although Minitab allegedly misappropriated Binary's trade secrets, it allegedly did so in order to cut out Minitab as the middle

man and sell its product directly to the end-users. There is no allegation in the complaint that Minitab opened offices in India for any purpose other than simply selling and licensing its own products to the end-users. Thus, Binary and Minitab would not be competing by attempting to sell and license other software companies' products to end-users. Similarly, despite plaintiff's argument that the "parties are now competing for customers for Minitab's products and licenses" (Rec. Doc. No. 27, at 37), we note that the contract between Minitab and Binary [*23] specifically states that once the agreement is terminated, Binary must immediately cease selling and promoting Minitab's products. (Rec. Doc. No. 1, Ex. A, § 5.2.) Thus, Binary and Minitab are not in competition in selling and licensing Minitab's products to end-users. Therefore, we find that Minitab and Binary are not competitors as a matter of law and therefore plaintiff's claim of unfair competition fails.

Finally, we note that plaintiff has requested leave to amend this portion of the complaint in the event that we find that it has failed to state a claim of unfair competition. (Rec. Doc. No. 27, at 35.) *Rule 15(a) of the Federal Rules of Civil Procedure* states that leave to amend "shall be freely given when justice so requires." Nevertheless, we will not grant plaintiff's leave to amend this portion of the complaint. This is because we believe that granting leave to amend this portion of the complaint would be futile. We have just discussed in detail that plaintiff's unfair competition claim fails because Minitab and Binary were not competitors as a matter of law. No amendment will change the fact that Binary was not permitted to sell Minitab's products once Minitab elected to [*24] terminate the agreement. Similarly, an amendment to allege that Minitab was setting up offices in India not only to sell its own products, but to sell other software companies' products as well, would clearly be a manufactured allegation in an attempt to permit plaintiff's unfair competition to survive. The facts have clearly alleged that Minitab was simply trying to cut out Binary as a middle man, not enter the Indian market in competition with Binary. Therefore, we will not permit plaintiff to amend this portion of the complaint and will dismiss Count XI of the complaint.

G. Procuring Information by Improper Means

Defendants argue that plaintiff's claim of procuring information by improper means attempts to state a claim for misappropriation of trade secrets under Pennsylvania.

(Rec. Doc. No. 19, at 33.) Furthermore, defendants argue that such a claim must be brought under the Pennsylvania Uniform Trade Secrets Act. (*Id.* at 34.) We agree. *Section 5308(a)* of the Pennsylvania Uniform Trade Secrets Act specifically states that the act "displaces conflicting tort, restitutionary and other law of this Commonwealth providing civil remedies for misappropriation of a trade secret." *12 Pa. C.S.A. § 5308(a)*. [*25] Furthermore, we note that plaintiff has conceded that this count of the complaint has been preempted by the act. (Rec. Doc. No. 27, at 38.)

Nevertheless, plaintiff seeks leave to amend this count to allege a cause of action under the statute. As we have mentioned, *Rule 15(a) of the Federal Rules of Civil Procedure* states that leave to amend "shall be freely given when justice so requires." Because it appears that plaintiff will be able to state a claim under the act by amending its complaint, and because defendants do not appear to object in their reply brief to plaintiff's request to amend, we will permit plaintiff to amend this portion of the complaint. We note that plaintiff's amended complaint must stand alone and be separate and complete from the original complaint. Furthermore, we will not permit plaintiff to amend any other portions of the complaint, and therefore the changes in the amendment should only be evident under Count XII of the complaint.

H. Unjust Enrichment

Defendants argue that plaintiff's claim for unjust enrichment fails because plaintiff has failed to allege any benefit conferred upon defendants. (Rec. Doc. No. 19, at 34-35.) Defendants also argue that this claim [*26] fails because the relationship between the parties is founded in contract. (*Id.* at 35-36.) In order to establish a claim of unjust enrichment under Pennsylvania law, a plaintiff must establish that: 1) the plaintiff has conferred benefits on the defendant; 2) the defendant has appreciated the benefits; 3) acceptance and retention of such benefits when it would be inequitable for the defendant to retain without payment. *Styer v. Hugo*, 422 Pa. Super. 262, 619 A.2d 347, 350 (Pa. Super. Ct. 1993).

As to defendants' first argument, we believe that plaintiff has clearly alleged a conferral of benefits in the form of the trade secrets that were allegedly stolen by defendants. Therefore, we will reject this argument. As to defendants' argument that the relationship between the parties is grounded in contract, we also find that this argument fails. Defendants are correct that under

Pennsylvania law, the doctrine of unjust enrichment is inapplicable when the relationship between the parties is founded in contract. *Schott v. Westinghouse Elec. Corp.*, 436 Pa. 279, 259 A.2d 443, 448 (Pa. 1969); *Hershey Foods Corp. v. Ralph Chapek, Inc.*, 828 F.2d 989, 999 (3d Cir. 1987). The problem with applying this rule to the instant case is [*27] that although the parties had a contract governing defendants' selling and licensing plaintiff's products, there was no contract governing the trade secrets that were allegedly stolen from plaintiff by defendants. The purpose behind barring recovery for unjust enrichment when there is a contract is that the contract would govern the conferral of benefits. This is not the situation we have in the instant case and we will therefore decline to dismiss Count XIV of the complaint.

Finally, we note that as we have already mentioned, the Pennsylvania Uniform Trade Secrets Act specifically states that the act "displaces conflicting tort, restitutionary and other law of this Commonwealth providing civil remedies for misappropriation of a trade secret." 12 Pa. C.S.A. § 5308(a). Although this preemption seemingly would require dismissal of plaintiff's unjust enrichment claim as well as its conversion claim (Count XIII), we note that these claims are permitted to stand due to the fact that plaintiff may still recover under these theories in the event that the allegedly stolen information does not constitute a "trade secret" under the act. *Cenveo Corp. v. Slater*, Civ. No. 06-2632, 2007 U.S. Dist. LEXIS 9966, 2007 WL 527720, at * 3 (E.D.Pa. Feb. 12, 2007) [*28] (Golden, J.) (stating "that the cases holding that the Trade Secrets Act does not preempt common law tort claims when it has yet to be determined whether the information at issue constitutes a trade secret take the better approach").

I. Fraudulent Inducement

Defendants also claim that plaintiff's fraudulent inducement claim is barred by Pennsylvania's "Gist of the Action" doctrine. (Rec. Doc. No. 19, at 36-39.) They also argue that plaintiff has failed to state a claim for fraudulent inducement. (*Id.* at 39-42.)

In order to establish a claim of fraudulent inducement, a plaintiff must establish: 1) a representation; 2) which is material to the transaction at hand; 3) made falsely, with knowledge of its falsity or recklessness as to whether it is true or false; 4) with the intent of misleading another into relying on it; 5) justifiable reliance on the misrepresentation; and 6) the

resulting injury was proximately caused by the reliance. *Eigen v. Textron Lycoming Reciprocating Engine Div.*, 2005 PA Super 141, 874 A.2d 1179, 1185 (Pa. Super. Ct. 2005) (citation omitted).

Plaintiff alleges that prior to completion of the contract on March 31, 2007, defendants renewed the contract for an additional year, which would [*29] last until March 31, 2008. (Rec. Doc. No. 1, P 326.) It also alleges that "[d]efendants made representations to [plaintiff] that they were very pleased with [plaintiff's] performance and were looking forward to continue to work with [plaintiff] in promoting and selling their products and services in India." (*Id.*, P 327.) It alleges that defendants had no intention of honoring this extension but were merely buying time while Minitab attempted to steal trade secrets and open its own office in India. (*Id.* P 32.) Relying on these representations, plaintiff invested time, resources, and money to promote and sell defendants' products and services over the course of the next year. (*Id.* P 329.) Finally, plaintiff alleges that these efforts were wasted when defendants terminated the contract because much of the investment was done up-front. (*Id.*)

We believe that plaintiff has successfully stated a claim for fraudulent inducement. Plaintiff's allegations are sufficient to show a material representation in that defendants were pleased with plaintiff's performance and were looking forward to continuing to work with plaintiff. This is clearly a representation and is also material due to the fact [*30] that it was made at the time the parties were negotiating the renewal of the contract. Furthermore, plaintiff has alleged that these statements were made falsely because at the time they were made, defendants were not looking forward to continuing to work with plaintiff but rather were already planning to steal plaintiff's trade secrets and open up their own office in India. Furthermore, plaintiff has sufficiently alleged that these statements were made with the intent of misleading plaintiff into relying on it because they were made at the time the parties were renewing the contract and presumably in order to reassure plaintiff of the stability of the parties' relationship. Finally, plaintiff has alleged that it relied on the misrepresentations and was injured when it invested time, resources, and money up-front in order to promote and sell defendants' products and services. Therefore, we find that plaintiff has sufficiently stated a claim for fraudulent inducement.

We now turn our consideration to whether this claim is barred by the "Gist of the Action" doctrine. Although not expressly recognized by the Pennsylvania Supreme Court, the Third Circuit has predicted that Pennsylvania [*31] would adopt the "Gist of the Action" doctrine as set out by Pennsylvania's Superior Court. *Williams v. Hilton Group PLC*, 93 Fed.Appx. 384, 385 (3d Cir. 2004). This doctrine is designed to maintain a distinction between breach of contract claims and tort claims by barring a plaintiff from recasting breach of contract claims as tort claims. *eToll, Inc. v. Elias/Savion Advertising, Inc.*, 2002 PA Super 347, 811 A.2d 10, 14 (Pa. Super. Ct. 2002). The reason for the distinction is because a tort claim is created by a breach of a duty imposed as a matter of social policy, while a contract claim is created by a breach of a duty imposed by mutual agreement. *Id.* The critical question is whether the tort claims are "inextricably intertwined" with the contract claims or whether the tort claims are "tangential" to the contract. *Id.* at 21. Thus, the doctrine cannot be evaded by merely pleading that the defendant acted negligently, recklessly, or intentionally if the gravamen of the claim is that the defendant failed to perform a promise. *Sunquest Information Systems, Inc. v. Dean Witter Reynolds, Inc.*, 40 F.Supp.2d 644, 651 (W.D.Pa. 1999) (citing *Factory Market, Inc. v. Schuller Int'l, Inc.*, 987 F.Supp. 387, 394 (E.D.Pa. 1997)).

As [*32] a preliminary matter, we note that we must exercise caution when considering whether to dismiss a claim based on the "Gist of the Action" doctrine at the motion to dismiss stage of the litigation. *Caudill Seed & Warehouse Co. v. Prophet 21, Inc.*, 123 F.Supp.2d 826, 834 (E.D.Pa. 2000) (Reed, J.) Such a determination can be factually intensive and may require discovery. *Haymond V. Lundy*, Civ. Nos. 99-5015, 99-5048, 2000 U.S. Dist. LEXIS 8585, 2000 WL 804432, at * 8 (E.D.Pa. June 22, 2000) (Shapiro, J.) (citations omitted). Furthermore, we note that unlike fraud in the execution of the contract, fraud in the inducement of a contract may not necessarily be barred by the "Gist of the Action" doctrine. See *Advanced Tubular Prods. v. Solar Atmospheres, Inc.*, 149 Fed. Appx. 81, 85 (3d Cir. 2005) ("Pennsylvania courts have recognized that the gist of the action doctrine may not cover fraud in the inducement."). Finally, we note that plaintiff has not brought a breach of contract claim in the instant complaint. This is likely because the contract could be terminated by either party for any reason upon thirty days written notice. (Rec. Doc. No. 1, PP 6, 63.) Thus, if would be a strange result if

plaintiff was not able to [*33] bring a fraudulent inducement claim because of the "Gist of the Action" doctrine when there is no breach of contract claim. In other words, the "gist" of this action is not a breach of contract claim.

Finally, although the instant contract contains an integration clause that states that the contract "supercedes all prior agreements, proposals and communications between the parties hereto . . ." (Rec. Doc. No. 19, Ex. A, § 7.10), we do not believe this changes our analysis. Although the integration clause may serve to bar plaintiff from using prior statements to prove the terms of the written contract in a breach of contract claim, it would not bar it from using prior statements to prove fraud in a fraudulent inducement claim. Therefore, we will decline to dismiss this claim based on the "Gist of the Action" doctrine.

J. Breach of Fiduciary Duty Claim

Defendants allege that plaintiff's breach of fiduciary duty claim fails because it is also barred by the "Gist of the Action" doctrine and because plaintiff has failed to plead the required elements of such a claim. (Rec. Doc. No. 19, at 42-46.) We agree that despite plaintiff's conclusory allegation that defendants owed plaintiff a fiduciary [*34] duty (Rec. Doc. No. 1, PP 334-35), plaintiff cannot establish a claim for breach of fiduciary duty because no fiduciary duty exists as a matter of law.

Under Pennsylvania law, a fiduciary duty exists when there is a "special relationship" which is one "involving confidentiality, the repose of special trust or fiduciary responsibilities." *eToll*, 811 A.2d at 22. Furthermore, "it generally involves a situation where by virtue of the respective strength and weakness of the parties, one has the power to take advantage of or exercise undue influence over the other." *Id.* No such relationship exists in the instant case. The parties have simply entered into a commercial, arms-length contract with one another and we find that this is insufficient to create a fiduciary relationship. See *id.* (commenting that the plaintiff failed to cite any cases in which a fiduciary relationship was found to exist between parties to an arms-lengths business transaction). If we were to rule that the contract in the instant case created a fiduciary duty, every breach of contract would necessarily involve a breach of fiduciary duty. *Id.* (stating that "[i]f parties to routine arms length commercial contracts for the [*35] provision of needed goods or services were held to have a

'special relationship,' virtually every breach of such a contract would support a tort claim.). Therefore, we find that plaintiff's claim for breach of fiduciary relationship fails as a matter of law and will dismiss Count XVII of the complaint.

K. Civil Conspiracy Claim

Defendants argue that plaintiff's civil conspiracy claim fails because this claim is barred by the "Gist of the Action" doctrine, because plaintiff has failed to plead malice as required to state such a claim, and because the torts underlying plaintiff's conspiracy claim fail so the conspiracy necessarily fails as well. (Rec. Doc. No. 19, at 46-49.) To establish a claim for civil conspiracy under Pennsylvania law, a plaintiff must prove: 1) a combination of two or more persons acting with a common purpose to do an unlawful act or to do a lawful act by unlawful means or for an unlawful purpose; 2) an overt act done in pursuance of the common purpose; and 3) actual legal damage. *Gen. Refractories Co. v. Fireman's Fund Ins. Co.*, 337 F.3d 297, 313 (3d Cir. 2003) (citing *Strickland v. Univ. of Scranton*, 700 A.2d 979, 987-988 (Pa. Super. Ct. 1997)). Furthermore, the [*36] Pennsylvania Supreme Court has also required that such a claim require proof of malice, or intent to injure. *Thompson Coal Co. v. Pike Coal Co.*, 488 Pa. 198, 412 A.2d 466, 472 (Pa. 1979).

As to defendants' argument that this claim is barred by the "Gist of the Action" doctrine, we find that it is not. As we have mentioned, plaintiff has not brought a breach of contract claim. Furthermore, even if it did, we would not find this claim to be barred by the "Gist of the Action" doctrine. Plaintiff has alleged that defendants conspired to steal plaintiff's trade secrets, convert plaintiff's information (in the event the information is deemed not to be a trade secret), and fraudulently induce plaintiff to enter into a contract. None of these claims are "inextricably intertwined" with the contract. Therefore, we find that the civil conspiracy claim in the instant case is not barred by the "Gist of the Action" doctrine.

As to defendants' argument that plaintiff has failed to plead malice, we also disagree. As plaintiff correctly points out, it has alleged that defendants' conduct was malicious in numerous paragraphs of the complaint. (Rec. Doc. No. 1, PP 219, 231, 246, 251, 256, 262, 265, 269, 280, 299.) [*37] For example, plaintiff alleges that defendants "willfully and maliciously accessed Plaintiff's computer . . . with the intent to obtain unlawful

possession of . . . Plaintiff's trade secrets and confidential and proprietary information." (*Id.* P 299.) We find this sufficient to allege malice at this stage of the litigation.

Finally, we disagree with defendants' argument that each of the underlying torts fails so the conspiracy claim necessarily fails. We have found that plaintiff's claim for fraudulent inducement is sufficient to state a claim. Similarly, defendants have not challenged plaintiff's claim for conversion. Finally, we find it highly likely that plaintiff will successfully state a claim for misappropriation of trade secrets under the Pennsylvania Uniform Trade Secrets Act upon amendment. Therefore, we will reject this as a basis for dismissal of plaintiff's civil conspiracy claim.

L. Right to An Accounting

Finally, defendants also take issue with plaintiff's claim for "An Accounting." (Rec. Doc. No. 19, at 49-51.) Pennsylvania law recognizes two types of accounting: equitable accounting and legal accounting. *Berger & Montague, P.C. v. Scott & Scott, LLC*, 153 F.Supp.2d 750, 754 (E.D.Pa. 2001) [*38] (Joyner, J.). In its opposition brief, plaintiff clarifies its complaint and states that it seeks an equitable accounting in order to ascertain the income and gross profits defendants have obtained through their unlawful conduct. (Rec. Doc. no. 27, at 52.)

The Pennsylvania Superior Court has stated that an equitable accounting is improper where: 1) no fiduciary relationship exists between the parties; 2) no fraud or misrepresentation is alleged; 3) the accounts are not mutual or complicated; or 4) the plaintiff possesses an adequate remedy at law. *A.M. Skier Agency, Inc. v. Gold*, 2000 PA Super 53, 747 A.2d 936, 942 (Pa. Super. Ct. 2000) (citation omitted). While plaintiff cites *Greencort Condominium Assoc. v. Greencort Partners* for the proposition that it need only show a fiduciary relationship, fraud or misrepresentation, or mutual or complicated accounts, and that no adequate remedy exists at law, we note that *Greencort* incorrectly states the rule. 2005 Phila. Ct. Com. Pl. LEXIS 443, 2005 WL 2562909, at * 7 (Pa. Com. Pl. Oct. 4, 2005). Indeed, *Greencort* cites *Rock v. Pyle*, which states that "[a]n equitable accounting is improper where no fiduciary relationship exists between the parties, no fraud or misrepresentation is alleged, the [*39] accounts are not mutual or complicated, or the plaintiff possesses an adequate remedy at law." 720 A.2d 137, 142 (Pa. Super. 1998) (emphasis in original). Based on *Rock* and *A.M. Skier*

Agency, a claim for equitable accounting would fail if any of those four factors existed, not all of them.

Because we have already ruled that no fiduciary relationship existed between the parties as a matter of law, plaintiff clearly does not have a right to equitable accounting under Pennsylvania law. Similarly, we do not understand why plaintiff would not be able to determine the amount of income and gross profits that Minitab has obtained through their wrongful and unlawful conduct through the process of discovery. Therefore, we will dismiss Count XIX of the complaint.

CONCLUSION:

For the reasons stated above, we conclude that plaintiff has failed to state a claim with respect to Counts I, II, IV, V, VI, VII, VIII, IX, X, XI, XVII, XIX and these counts are therefore dismissed. Plaintiff is given leave to amend Count XII of the complaint. The remaining counts are permitted to proceed.

/s/ James F. McClure, Jr.

JAMES F. McCLURE, JR.

United States District Judge

ORDER

In [*40] accordance with the accompanying Memorandum,

IT IS HEREBY ORDERED THAT:

1. Defendants Minitab, Barbara Ryan,

Bruce Pincus, and Patrick Sheehan's motion to dismiss is granted in part and denied in part. (Rec. Doc. No. 18.)

2. Counts I, II, IX, X, XI, XVII and XIX of the complaint are dismissed for failure to state a claim upon which relief can be granted.

3. Counts IV, V, VI, VII and VIII are dismissed for lack of subject matter jurisdiction.

4. Plaintiff is granted leave to amend Count XII of the complaint to state a claim under the Pennsylvania Uniform Trade Secrets Act. The amended complaint must stand alone and be separate and complete from the original complaint. Furthermore, plaintiff is only permitted to amend the complaint as to Count XII.

5. Plaintiff shall file any amended complaint on or before April 4, 2008.

6. Defendant need not file an answer to the original complaint, but must file a timely response to the amended complaint.

/s/ James F. McClure, Jr.

JAMES F. McCLURE, JR.

United States District Judge