

IN THE UNITED STATES DISTRICT COURT FOR  
THE DISTRICT OF MARYLAND, NORTHERN DIVISION

CHATTERRY INTERNATIONAL,  
INC., *et al.*,

Plaintiffs -  
Counter-Defendants,

v.

JOLIDA, INC., *et al.*,

Defendants -  
Counter-Plaintiffs.

CIVIL NO.: WDQ-10-2236

\* \* \* \* \*

MEMORANDUM OPINION

Chatterry International, Inc. ("Chatterry") and Shanghai Shenda Sound Electronic Co., Ltd. ("Shenda") (collectively the "Shenda parties") sued JoLida, Inc. ("JoLida") and Michael Allen (collectively the defendants) for unauthorized use and registration of a trademark, and other claims. JoLida counterclaimed against Chatterry, Shenda, and Jing Guo Chen, Chatterry's chairman and chief executive officer ("CEO"), for trademark infringement, and other claims. For the following reasons, the defendants' motion to dismiss count eight of the amended complaint will be denied.

I. Background<sup>1</sup>

In December 1983, cousins Michael Allen and Huang Hong-Sheng and others incorporated JoLida in Maryland, to sell China-manufactured vacuum tubes used in electronics.<sup>2</sup> ECF No. 9 ¶¶9, 11. Allen is its president and CEO. ECF No. 66 Attach. 3 ¶2. Its products had an "X Marks the Spot" design trademark with a "JOLIDA" word trademark ("the X mark"). ECF No. 9 ¶ 10. In 1993, JoLida began designing amplifiers that use vacuum tubes ("tube amplifiers").<sup>3</sup> *Id.* ¶¶12-13. Initially, JoLida bought vacuum tubes made by Shuguang Tube. Allen Decl. ¶ 6.

In January 1995, Chatterry was incorporated in Maryland. ECF No. 60 ¶1; ECF No. 14 at 4.

In 1995, JoLida began manufacturing and distributing tube amplifiers and other audio equipment to United States customers, ECF No. 9 ¶13, but trade journals described the products as unreliable and poorly constructed, *see, e.g., id.*, Attach. 1 at 2. In or after September 1996, Chatterry's Chen agreed to fix

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<sup>1</sup> For the motion to dismiss, the well-pled allegations in the amended complaint are accepted as true. *Brockington v. Boykins*, 637 F.3d 503, 505 (4th Cir. 2011).

<sup>2</sup> "JoLida" combines the first names of the mothers of Hong-Sheng ("Jo" for "Joanne") and Allen ("Lida"). ECF No. 9 ¶9.

<sup>3</sup> These amplifiers are marketed to audiophiles who believe that amplifiers that use vacuum tubes sound better than amplifiers that use transistors. ECF No. 9 ¶12.

defective amplifiers that JoLida had received from a manufacturer in China. *Id.* ¶¶31, 33.

In November 1996, Shenda was formed in China as Chatterry and JoLida's subsidiary, with Chen as Shenda's manager. ECF No. 60 ¶11; ECF No. 9 ¶34. JoLida began using Shenda to supply and manufacture parts for JoLida's amplifiers. *Id.*

In 1997, after a disagreement over investment in Shenda,<sup>4</sup> Shenda became Chatterry's wholly-owned subsidiary and ceased to be JoLida's subsidiary. ECF No. 20 Attach. 1 ¶8.

On March 28, 1998, Shenda registered the X mark in China. See ECF No. 60, Ex. C.

From 1997 to 2008, Shenda manufactured audio products for JoLida. ECF No. 14 at 5. From 1997 to 2000, Shenda operated at a loss, and Chen continued to provide capital for the company. ECF No. 20 Attach. 1 ¶10. Shenda hired engineers and technical

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<sup>4</sup> The Shenda parties assert that Chatterry and JoLida had agreed to invest \$1 million in Shenda jointly (the "Joint Venture Agreement"), but JoLida did not contribute its capital share. ECF No. 60 ¶¶11-12; ECF No. 20 Attach. 1 ¶3. The Shenda parties assert that because of JoLida's failure to contribute under the Joint Venture Agreement, Chatterry and JoLida entered into a new agreement on May 26, 1997 (the "1997 Agreement"). ECF No. 60 ¶13.

The alleged 1997 Agreement provides, *inter alia*, that: (1) JoLida would transfer all of its Shenda shares to Chatterry for \$300,000, (2) Chatterry authorized JoLida to "be the sole distributor for the United States and Europe" for Shenda's audio products, (3) Chatterry would use the X mark on Shenda's products to improve JoLida's image in the United States, (4) Shenda owned the trademarks it used on, and the intellectual property rights of, the audio products it manufactured. ECF No. 60, Ex. A at 2 ¶¶1-2, 4-6.



staff to improve the quality of its products, and sales increased. *Id.*

Shenda asserts that through its research it developed a cost-effective, "unique process" for manufacturing the amplifiers; that it kept the process secret, limiting employee knowledge to specific components of the process and advising employees that the process is confidential. ECF No. 60 ¶¶62-64.

In 2003, Shenda made its first profit, and sales continued to increase. ECF No. 20 Attach. 1 ¶11. Its audio products for JoLida received positive reviews and won engineering awards. See, e.g., ECF No. 9, Ex. 1 at 4, 12.

Shenda's factory manager was Qin Zhong. ECF No. 60 ¶68. The Shenda parties assert that in 2006, Zhong secretly conspired with JoLida to build a competing factory, in Shanghai and, at Allen's request, he stole Shenda's intellectual property, including its manufacturing designs and configurations. ECF No. 60 ¶¶68-71.

JoLida and "Allen covertly recruited [Zhong] to work in [JoLida] Shanghai, . . . further solicited [Zhong's] aid in recruiting other Shenda employees and providing Defendants with confidential and proprietary information misappropriated from Shenda." ECF No. 60 ¶¶68-69. They alleged that, "[u]tilizing the stolen trade secret[s] provided by [Zhong], Defendants' competing factory was soon able to manufacture stereo system at

the same quality and cost structure as Shenda's." *Id.* ¶71. At Allen's and JoLida's urging, Zhong allegedly brought seven other Shenda employees to JoLida Shanghai. *Id.* Finally, they alleged that JoLida and Allen "improperly took the trade secrets from [the Shenda parties] without . . . a right or privilege to do so, and used and disclosed said trade secrets in their own business." *Id.* ¶73.

On January 10, 2007, JoLida opened a factory in China, JoLida Shanghai Co. Ltd. ("JoLida Shanghai"), and transferred the manufacturing process there from Shenda. ECF No. 14 at 5. Zhong left Shenda to work for JoLida Shanghai. ECF No. 20 Attach. 1 ¶ 12. JoLida asserts that it created JoLida Shanghai to take control of its products because "the quality of Shenda's manufacturing began to deteriorate." ECF No. 14 5; ECF No. 9 ¶ 36. The Shenda parties assert that Shenda was cut out because profits were increasing, and Zhong stole Shenda's designs and configurations to use at JoLida Shanghai. ECF No. 20 at 11; ECF No. 20 Attach. 1 ¶ 12.

On April 3, 2007, JoLida obtained international registration for the JoLida word mark. *Id.*, Ex. 4. In February 2008, JoLida stopped ordering from Shenda. See ECF No. 9 ¶¶54-55.

On March 31, 2010, the Shenda parties sued JoLida in the Circuit Court for Baltimore City for breach of contract, false

designation of origin under the Lanham Act, and related claims.<sup>5</sup> ECF No. 36, Ex. 1. On June 21, 2010, JoLida and the Shenda parties stipulated to a dismissal of that case for improper venue, and the Shenda parties brought the same action in the Circuit Court for Howard County. ECF No. 38, Ex. 2. On August 13, 2010, JoLida removed to this Court. ECF No. 1.

JoLida counterclaimed against the Shenda parties in this Court for trademark infringement, tortious interference with economic relations, civil conspiracy, and related claims.<sup>6</sup> ECF No. 9. On September 27, 2011, the Court allowed the Shenda parties to file an amended complaint adding a count for misappropriation of trade secrets, and naming Michael Allen as a defendant in counts three through 11. ECF No. 59.

On November 7, 2011, the defendants moved to dismiss count eight of the amended complaint, which alleges a violation of the

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<sup>5</sup> On September 5, 2008, the Shenda parties sued JoLida Shanghai in China, seeking to shut down the factory and/or enjoin JoLida from using the JoLida trademark in violation of the 1997 Agreement. ECF No. 9 ¶63; ECF No. 22 ¶63. JoLida asserts that the Chinese court "found in favor of JoLida Shanghai"; the Shenda parties assert that the court found that JoLida "was not allowed to mark [its] goods with Shenda's JOLIDA mark." ECF No. 9 ¶63.

<sup>6</sup> In its counterclaim, JoLida impleaded Marc Prylli, Shenda's marketing and overseas manager, alleging cybersquatting. ECF No. 9. The Court dismissed the claim against Prylli for lack of personal jurisdiction. ECF No. 51.



Maryland Uniform Trade Secret Act ("MUTSA").<sup>7</sup> ECF No. 66. The Shenda parties opposed the motion. ECF No. 67.

## II. Analysis

The defendants contend that count eight should be dismissed (1) for failure to state a claim under MUTSA, (2) pursuant to *forum non conveniens*, or (3) for failure to join a required party. ECF No. 66.

### A. Failure to State a Claim

#### 1. Standard of Review

Under Fed. R. Civ. P. 12(b)(6), an action may be dismissed for failure to state a claim upon which relief can be granted. Rule 12(b)(6) tests the legal sufficiency of a complaint, but does not "resolve contests surrounding the facts, the merits of a claim, or the applicability of defenses." *Presley v. City of Charlottesville*, 464 F.3d 480, 483 (4th Cir. 2006).

The Court bears in mind that Rule 8(a)(2) requires only a "short and plain statement of the claim showing that the pleader is entitled to relief." *Midgal v. Rowe Price-Fleming Int'l Inc.*, 248 F.3d 321, 325-26 (4th Cir. 2001). Although Rule eight's notice-pleading requirements are "not onerous," the plaintiff must allege facts that support each element of the claim advanced. *Bass v. E.I. Dupont de Nemours & Co.*, 324 F.3d

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<sup>7</sup> The defendants' request for a hearing on the motion will be denied as unnecessary. ECF No. 69.

761, 764-65 (4th Cir. 2003). These facts must be sufficient to "state a claim to relief that is plausible on its face." *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007).

This requires that the plaintiff do more than "plead[] facts that are 'merely consistent with a defendant's liability'"; the facts pled must "allow[] the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1949 (2009) (quoting *Twombly*, 550 U.S. at 557). The complaint must not only allege but also "show" that the plaintiff is entitled to relief. *Id.* at 1950. "Whe[n] the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct, the complaint has alleged—but it has not shown—that the pleader is entitled to relief." *Id.* (internal quotation marks omitted).

The MUTSA imposes civil liability on, and authorizes injunction of, intentional misappropriation of trade secrets.<sup>8</sup>

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<sup>8</sup> Misappropriation of a trade secret is:

(1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(2) Disclosure or use of a trade secret of another without express or implied consent by a person who:  
(i) Used improper means to acquire such knowledge of the trade secret; or (ii) at the time of disclosure or use, knew or had reason to know that the person's knowledge of the trade secret was: . . . (2) Acquired



Md. Code Ann. Comm. Law §§ 11-1202; 11-1203; see also *Systems 4, Inc. v. Landis & Gyr, Inc.*, 8 F. App'x 196, 200 (4th Cir. Md. 2001). The complainant must allege that: (1) it has taken reasonable steps to protect the secrecy of information that derives economic value from its secrecy, and (2) the defendant acquired that information "through improper means." *Systems 4*, 8 F. App'x at 200.<sup>9</sup> Economic harm is not an element of misappropriation. Md. Code Ann., Comm. Law § 11-1201(c).

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under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (3) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use . . .

Md. Code Ann. Com. Law § 11-1201(c). A trade secret is:

information, including a . . . pattern, compilation, program, device, method, technique, or process, that: (1) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

*Id.* § 11-1201(e).

<sup>9</sup> "A claim under [MUTSA] raises two central inquiries: (1) whether the information at issue qualifies as a trade secret; and (2) whether an individual has actually misappropriated that information or has threatened to misappropriate it." *Lejeune v. Coin Acceptors, Inc.*, 381 Md. 288, 305, 849 A.2d 451, 462 (2004).

## 2. Maryland Law May Apply

The Shenda parties have alleged facts that, if proven, would lead the Court to apply Maryland law.

Maryland applies the rule of *lex loci delicti* to determine the applicable law in tort cases.<sup>10</sup> Under that rule, the Court applies the law of the state "where the injury—the last event required to constitute the tort—occurred." *Lab. Corp. of Am. v. Hood*, 395 Md. 608, 615, 911 A.2d 841, 845 (2006). Misappropriation occurs where the misappropriated information is received and used, not necessarily where it was taken or where the economic harm is felt. *RaceRedi Motorsports, LLC v. Dart Mach., Ltd.*, 640 F. Supp. 2d 660, 666 (D. Md. 2009) (interpreting MUTSA).<sup>11</sup>

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<sup>10</sup> Federal courts with supplemental jurisdiction over a state law claim apply the choice of law rules of the forum state. *Klaxon Co. v. Stentor Elec. Mfg. Co.*, 313 U.S. 487, 496-97 (1941).

<sup>11</sup> See also *Myung Ga, Inc. v. Myung Ga of Md., Inc.*, 2011 WL 3476828, \*6 n.6 (D. Md. Aug. 8, 2011) ("The only plausible inference from the complaint is that any misappropriation (and use of the trade secrets) occurred in Maryland; Maryland law would therefore govern."); *Manuel v. Convergys Corp.*, 430 F.3d 1132, 1140 (11th Cir. 2005) ("In a trade secret misappropriation case, the *lex loci delicti* is not the place where the information was learned, but where the tortious act of misappropriation and use of the trade secret occurred." (internal quotation marks omitted)); *White Wave Int'l Labs, Inc. v. Lohan*, No. 09-1260, 2010 WL 3835873, \*3 (M.D. Fla. Sept. 29, 2010) ("[T]he alleged misappropriation [under the UTSA] . . . did not take place [at the plaintiff's Florida offices, from which the information was taken]. Here, if any disclosures of Plaintiff's formula took place, it was to the Texas company that manufactures [the product using the trade secret]." Further, the harm was not



The Shenda parties have alleged that JoLida and Allen, Maryland residents, induced Zhong, in Shanghai, to take the Shenda parties' trade secrets from the Shenda subsidiary factory, disclose them to JoLida, and implement them in JoLida Shanghai, which used the information to manufacture speakers in its factories in Shanghai. ECF No. 60 ¶¶68-71. Thus, many of the acts occurred in Shanghai, not Maryland. See *RaceRedi*, 640 F. Supp. 2d at 666.

However, the Shenda parties have also alleged that JoLida and Allen reside and do business in Maryland, and Zhong gave the trade secrets to the defendants. Accordingly, under the facts alleged, the defendants could have acquired the information when they were in Maryland, although the information came from Shanghai. In turn, they could have disclosed it to JoLida

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felt in Florida; it was felt in Texas where the tortious acts occurred.).

The Shenda parties contend that misappropriation occurs where the plaintiff feels the harm of the tort, not where the secret is disclosed or used. ECF No. 67 at 4-5. Harm to the plaintiff is not an element of misappropriation. Md. Code Ann., Comm. Law § 11-1201(c). Thus, the last event required to constitute the tort is acquisition, disclosure, or use. See *id.* Further, the test is where the "wrong" occurred; in a misappropriation claim the wrong is the loss of secrecy, not subsequent financial harm. See *Bledsoe v. Crowley*, 849 F.2d 639, 642 (D.C. Cir. 1988); Md. Code Ann., Comm. Law § 11-1201(c); *Bates v. Cook, Inc.*, 615 F. Supp. 662, 675 (M.D. Fla. 1984) (collecting cases supporting conclusion that place where secret is wrongfully obtained, used, or disclosed is *lex loci delicti*, not place where injury is felt).



Shanghai, from Maryland.<sup>12</sup> Accordingly, under both types of misappropriation, the last act necessary to complete the tort may have occurred in Maryland.<sup>13</sup> See Md. Code Ann., Comm. Law § 11-1201(c).

Discovery is necessary before the Court can determine whether Maryland law will govern the trade secret misappropriation claim.

### 3. MUTSA's Extraterritorial Reach is Irrelevant

The defendants' second argument, that MUTSA does not apply to extraterritorial activity, depends on the assumption that no tortious conduct occurred in Maryland. See ECF No. 66 Attach. 1 at 10. As the amended complaint alleges a tort that may have occurred in Maryland, MUTSA's extraterritorial applicability is irrelevant.

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<sup>12</sup> The defendants have not identified--and the Court has not found--any reason to believe that a misappropriator's acts of acquiring and disclosing information, from one location, occurs where a third-party recipient receives the information from the misappropriator. As acquisition and disclosure are sufficient to constitute misappropriation, the alleged use of the information elsewhere is not necessarily dispositive. See Md. Code Ann., Comm. Law § 11-1201(c).

<sup>13</sup> The Shenda parties contend that the Court's reasoning in its Memorandum Opinion granting them leave to file the amended complaint, that misappropriation occurs at the defendant's place of business, "is largely irrelevant." ECF No. 67 at 5. The place of business reasoning is relevant because the defendant usually "uses" the information at its place of business. See, e.g., *RaceRedi*, 640 F. Supp. 2d at 666. Here, the allegations may be understood to mean that the defendants obtained and disclosed the trade secrets at their Maryland headquarters.

#### 4. Piercing the Corporate Veil is Unnecessary

The defendants' final argument for dismissal for failure to state a claim is that the Shenda parties are asserting a claim against them "for the alleged acts of the subsidiary" and have not alleged facts to support piercing the corporate veil between it and its wholly owned subsidiary. ECF No. 66 Attach. 1 at 10.

The plaintiffs have alleged that JoLida and Allen misappropriated trade secrets by soliciting, and obtaining from Zhong, Shenda's trade secrets. The Shenda parties have alleged that Zhong provided JoLida and Allen with trade secrets, which JoLida and Allen then used, with Zhong, at JoLida Shanghai. ECF No. 60 ¶¶69, 71.

Accordingly, the Shenda parties have alleged that the defendants, not their subsidiary, misappropriated the trade secrets. See Md. Code Ann., Comm. Law § 11-1201(c) (misappropriation may be merely wrongfully obtaining and disclosing trade secrets; use is not necessary). There is no need to pierce the corporate veil. The Shenda parties have stated a claim for which relief can be granted.

#### B. Forum Non Conveniens/Supplemental Jurisdiction

JoLida next contends that the Court should dismiss the case on *forum non conveniens* grounds. ECF No. 66 Attach. 1 at 11.

A Court may dismiss an action on *forum non conveniens* grounds when (1) there is an alternative, adequate forum that is

available to all defendants, and (2) balancing the public and private interests, dismissal so that the action may be brought in a foreign jurisdiction would be more convenient than remaining in the plaintiff's choice of forum. *Tang v. Synutra Int'l, Inc.*, 656 F.3d 242, 248 (4th Cir. 2011).

1. Availability and Adequacy of Alternative Forum

Usually, an alternative forum is available when the defendants are "amenable to process" there. *Tang*, 656 F.3d at 249 (quoting *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 255 n.22 (1981)). In rare circumstances, a foreign forum may be inadequate because the parties would be "deprived of all remedies or treated unfairly." *Id.* (internal quotation marks and citation omitted).

Here, the defendants have submitted an affidavit that they would not contest a suit filed in China. ECF No. 66 Attach. 3 ¶8. Accordingly, the proposed alternative forum is available. *Tang*, 656 F.3d at 250. The Shenda parties have not contended that China would be an inadequate forum. See ECF No. 67 at 9-10. Thus, the Court must weigh the public and private interest factors.

2. Private Factors

The "*forum non conveniens* doctrine is ultimately concerned with convenience, not simply the locus of the alleged wrongful conduct." *Tang*, 656 F.3d at 252. The Court considers four



factors pertaining to the private interests of the litigants: (1) the ease of access to sources of proof; (2) compulsory process to obtain unwilling witnesses; (3) the cost of obtaining willing witnesses; and (4) other practical problems that affect the ease, expeditiousness, and expense of trial. *Id.* at 249 (quoting *Piper Aircraft*, 454 U.S. at 241 n.6).

The defendants contend that all witnesses "who know[] about the trade secrets" are in China. ECF No. 66 Attach. 1 at 14. Thus, they argue, "evidence will need to be obtained from Chinese citizens who worked at either or both factories." *Id.* at 15. Further, Shenda will have to prove that it took steps to maintain the secrecy of its designs and methods, and "the finder of fact may . . . need to tour one or both facilities" to understand the methods and decide whether the designs and methods were kept secret. *Id.* The defendants add that relevant "records, invoices, [and] bills of lading" will likely be located in China. *Id.*

The Shenda parties counter that some of the plaintiffs and the defendants are located in Maryland. They contend that certain JoLida employees residing in Maryland are important witnesses whose attendance could not be compelled in China. ECF No. 67 at 11.

This Court cannot compel the attendance of Chinese witnesses. *Tang*, 656 F.3d at 252. That necessary witnesses,

including Zhong, the defendants' alleged agent and holder of the trade secrets, are beyond the Court's subpoena power, favors dismissal. *Id.* As "much of the evidence will derive from Chinese witnesses [and documents], trial in an American court will require costly translators." *Id.* However, the defendants recognize that the "eight or more" foreign witnesses could testify by video deposition. ECF No. 66 Attach. 1 at 17. That would dramatically reduce the cost of trying the case, and eliminate the need to compel the attendance of foreign witnesses at trial.<sup>14</sup>

Further, it is not clear why this claim about how JoLida acquired the information about factory methods and technology

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<sup>14</sup> The defendants rely heavily on *Tang* to justify dismissal. Though some facts are analogous in the actions--e.g., both suits involved Chinese factories--the convenience to the parties is very different here. In *Tang*, Chinese parents of more than 50 infants brought suit in the District of Maryland, individually and on behalf of their children, against a corporation with its principal place of business in Maryland, and its subsidiary factory in China. The subsidiary had manufactured and distributed contaminated infant formula exclusively in China. 656 F.3d at 242. The Fourth Circuit upheld dismissal of the action for *forum non conveniens*, because the contaminated formula was created, marketed, and consumed exclusively in China, the home to every plaintiff. *Id.* at 252.

Here, by contrast, the allegedly misappropriated information moved between Shanghai and Maryland, possibly from Shenda's Shanghai factory, through Zhong, to Allen and others at JoLida (in Maryland), then back to Shanghai to JoLida Shanghai to make products that JoLida (a Maryland company) would market in the United States, where Chatterly also marketed competing products made using the trade secrets. ECF No. 60. Further, unlike a consumer product like baby formula, information is intangible and does not necessarily have a geographic location.

would require a site visit rather than a video tour or courtroom demonstration.

Though it is not clear at this early stage in the litigation, it appears that other evidence and witnesses will be in Maryland, and compulsory process would be unavailable to some witnesses either here or in China. For example, Allen will likely be an important witness, and the parties agree that he does not speak Chinese, so a translator would be needed in China as well. ECF Nos. 67 at 11, 68 at 12.

Accordingly, the private interest factors here do not support dismissing the action.

### 3. Public Factors

The Court considers five public interest factors: (1) the administrative difficulties of court congestion; (2) the "local interest in having localized controversies decided at home"; (3) the interest in adjudication by a court familiar with the law to be applied; (4) avoiding unnecessary conflicts of law or problems applying foreign law; and (5) the unfairness of burdening citizens in a disinterested forum with jury duty. *Tang*, 656 F.3d at 249 (quoting *Piper Aircraft*, 454 U.S. at 241 n.6).

Neither party has directly addressed the first public interest factor. As discussed above, some of the alleged tortious conduct occurred in Maryland, and some in China. See



Part II.A.2, *supra*. Accordingly, the second and fifth factors are neutral.

The defendants' argument that the public interests factors favor dismissal is primarily based on their assumption that Chinese law will apply to the trade secrets claim. ECF No. 66 Attach. 1 at 16. As discussed above, Maryland law may apply to that claim. See Part II.A.2, *supra*. Accordingly, the third and fourth public interest factors may not favor dismissal.

As neither the private nor public factors support dismissal, the Court will not dismiss for *forum non conveniens*.

#### 4. Supplemental Jurisdiction

Alternatively, JoLida argues that the Court should decline to exercise supplemental jurisdiction over the misappropriation claim. As the Court held when it granted leave to file the amended complaint, this argument fails because the claim is part of "the same case or controversy" as the other claims. See 28 U.S.C. § 1367. If a plaintiff "'would ordinarily be expected to try [all of his claims] in one judicial proceeding,'" a federal court may hear claims that supplement the claim that creates jurisdiction. *Axel Johnson, Inc. v. Carroll Carolina Oil Co., Inc.*, 145 F.3d 660, 662 (4th Cir. 1998) (quoting *United Mine Workers of Am. v. Gibbs*, 383 U.S. 715, 725 (1966)). The MUTSA claim relates to JoLida's allegedly unfair competition with Chatterry for sales of similar products, which is the subject of

the third through seventh counts. See ECF No. 60 ¶¶32-73. The Court has supplemental jurisdiction.

C. Necessary Party

Finally, the defendants contend that the Court should dismiss count eight under Fed. R. Civ. P. 12(b)(7) because JoLida Shanghai is a required party but cannot be joined.<sup>15</sup> ECF No. 66 Attach. 1 at 21.

1. Standard of Review

Under Fed. R. Civ. P. 12(b)(7), the Court may dismiss an action if a necessary party cannot be joined and is indispensable to resolution of the action. The Court first considers whether an absent party is necessary under Fed. R. Civ. P. 19(a).<sup>16</sup> If so, the Court considers whether joinder is possible. If joinder is possible, the Court will order that the party be joined. If joinder is not possible, the Court considers, under

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<sup>15</sup> The Court lacks personal jurisdiction over JoLida Shanghai. ECF No. 66 Attach. 1 at 23.

<sup>16</sup> Under Fed. R. Civ. P. 19(a)(1), a party is necessary to the action if:

- (A) In [its] absence the court cannot accord complete relief among the existing parties; or
- (B) [It] claims an interest in the subject of the action and is so situated that disposing of the action without it may:
  - (i) . . . impair or impede [its] ability to protect the interest; or
  - (ii) leave an existing party subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations because of the interest.

Rule 19(b),<sup>17</sup> whether to proceed without the party or dismiss the action. *Owens-Ill., Inc. v. Meade*, 186 F.2d 435, 440 (4th Cir. 1999). A party cannot be indispensable unless it is necessary, but not all necessary parties are indispensable. *Schlumberger Indus. v. Nat'l Sur. Corp.*, 36 F.3d 1274, 1285-86 (4th Cir. 1996).

The defendants bear the burden of showing that a missing party is necessary and indispensable. *R-Delight Holding LLC v. Anders*, 246 F.R.D. 496, 499 (D. Md. 2007). The decision to dismiss is in the Court's sound discretion, and it will order dismissal only when "serious prejudice or inefficiency will result" from hearing the action without the party. *Id.*; *RPR & Assocs. v. O'Brien/Atkins Assocs., P.A.*, 921 F. Supp. 1457, 1463 (M.D.N.C. 1995), cited in *Owens-Ill.*, 186 F.2d at 441.

## 2. JoLida Shanghai is Not a Necessary Party

The defendants contend that JoLida Shanghai hired former Shenda employees and implemented the trade secrets at JoLida

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<sup>17</sup> Under Fed. R. Civ. P. 19(b), when a necessary party cannot be joined, "the court must determine whether, in equity and good conscience, the action should proceed among the existing parties." The Court considers whether:

- (1) Judgment will prejudice the absent or existing parties;
- (2) Any prejudice can be reduced or avoided;
- (3) Judgment will be adequate without the absent party;
- (4) The plaintiff will have an adequate remedy if the action is dismissed.



Shanghai, and an adverse decision by this Court would affect JoLida Shanghai's business, but a favorable decision would not prevent the Shenda parties from suing it over the same transactions. ECF No. 66 Attach. 1 at 23. The Shenda parties counter that their allegations only relate to JoLida and Allen, and do not involve JoLida Shanghai. ECF No. 67 at 15.

Joinder is necessary when the subsidiary's conduct is a subject of the suit, making the subsidiary more than merely "a key witness." *Nat'l Union Fire Ins. Co. of Pittsburgh v. Rite Aid of S.C., Inc.*, 210 F.3d 246, 251-52 (4th Cir. 2000).

The Shenda parties have alleged that JoLida and "Allen covertly recruited [Zhong] to work in [JoLida] Shanghai, . . . further solicited [Zhong's] aid in recruiting other Shenda employees and providing Defendants with confidential and proprietary information misappropriated from Shenda." ECF No. 60 ¶¶68-69. They have alleged that, "[u]tilizing the stolen trade secret[s] provided by [Zhong], Defendants' competing factory was soon able to manufacture stereo system at the same quality and cost structure as Shenda's." *Id.* ¶71. At Allen and JoLida's urging, Zhong allegedly brought seven other Shenda employees to JoLida Shanghai. *Id.* Finally, they have alleged that JoLida and Allen "improperly took the trade secrets from [the Shenda parties] without . . . a right or privilege to do

so, and used and disclosed said trade secrets in their own business." *Id.* ¶73.

The Shenda parties have alleged no wrongdoing by JoLida Shanghai. JoLida Shanghai did not misappropriate trade secrets unless it (1) knew or should have known they were acquired by improper means, (2) used improper means to learn the trade secrets, or (3) knew that Zhong had wrongfully disclosed the trade secrets to JoLida. Md. Code Ann., Comm. Law § 11-1201(c). The amended complaint does not allege that JoLida Shanghai knew the trade secrets were improperly obtained, which would make it complicit in the asserted misappropriation. See ECF No. 60 ¶¶67-74.

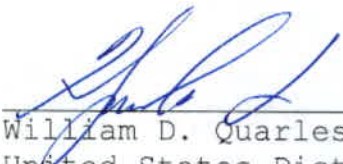
As JoLida Shanghai's conduct has not been pled in the amended complaint, it is no more than "a key witness" in this action. *Nat'l Union Fire Ins. Co.*, 210 F.3d at 251-52. A finding that JoLida misappropriated the trade secrets would not prevent JoLida Shanghai from arguing that it was not aware that the information was misappropriated, and would not be liable in a future suit. Accordingly, the Court may resolve the disputes among the parties without JoLida Shanghai, whose ability to protect any interest it has in the information will not be impaired; JoLida Shanghai is not a necessary party. See Fed. R. Civ. P. 19(a).

III. Conclusion

For the reasons stated above, the defendants' motion to dismiss count eight of the amended complaint will be denied.

Date

4/23/12

  
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William D. Quarles, Jr.  
United States District Judge