IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF TEXAS TYLER DIVISION

HEWLETT-PACKARD COMPANY,	§	
	§	
Plaintiff,	§	
	§	
vs.	§	
	§	
BYD:SIGN, INC.; BYD:SINE, CO. LTD.,	§	
a/k/a/ BYD:SIGN, CO. LTD., a/k/a BYD:SIGN	§	
COMPANY JAPAN, LTD, a/k/a/ BYD:SIGN	§	CIVIL ACTION NO. 6:05CV456
WORLDWIDE; EYEFI DIGITAL TV, INC.;	§	
IDAPT SYSTEMS, LLC; KATSUMI	§	
ELECTRONICS CORPORATION; J. BRIAN	§	
DENNISON; KARL KAMB, JR.; KATSUMI	§	
IIZUKA; MARC McEACHERN; WILLIAM	§	
TAFFEL; DAVID THORSON; POOJITHA	§	
PREENA,	§	
	§	
Defendants.	§	

DEFENDANTS BYDESIGN JAPAN, EYEFI, KATSUMI IIZUKA AND KARL KAMB, JR.'S MOTION TO DISMISS AND SUPPORTING BRIEF

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TO THE HONORABLE COURT:

Defendants byd:sine, Co. Ltd., a/k/a byd:sign, Co. Ltd., a/k/a byd:sign Company Japan, Ltd, a/k/a byd:sign Worldwide ("Bydesign Japan"), Eyefi Digital TV, Inc. ("Eyefi"), Katsumi Iizuka ("Iizuka") and Karl Kamb, Jr. ("Kamb") (collectively "Moving Defendants") hereby move to dismiss certain claims alleged against them pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure. This motion is made and based upon the following points and authorities, the papers and pleadings on file herein, and those matters adduced by the Court at any hearing hereof.

I.

SUMMARY OF MOTION

In Hewlett-Packard Company's ("Plaintiff" or "HP") Complaint, it has attempted to obtain federal court jurisdiction by alleging, *inter alia*, in conclusory form two federal claims that fail as a matter of law. Here, HP is attempting to paint a picture of "cloak and daggers" by characterizing Kamb as a ruthless ringleader who engaged in a criminal racketeering enterprise. The allegations asserted by HP, however, could not be further from the truth. Instead, this case is about a former HP marketing employee who allegedly had dreams of greater fulfillment than what HP could provide. Contrary to the assertions alleged by HP, Kamb was not engaged in any criminal enterprise and neither he nor any of the other Moving Defendants violated any provisions under the Lanham Act. Not only are there no facts to even remotely suggest the Moving Defendants engaged in any acts that violated the Lanham and Civil Rico Act but also HP has failed to even allege the facts necessary to support the same. Accordingly, Bydesign Japan, Eyefi, Iizuka and Kamb move to dismiss HP's claims of the Violation of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), Lanham Act Unfair Competition, common law fraud and breach of fiduciary duty pursuant to Rule 12(b)(6) because HP has failed to state a

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claim upon which relief can be granted. Also, Plaintiff's common law fraud claim must be dismissed because it has failed to allege this claim with sufficient particularity as required by FED. R. CIV. P. 9(b).

II.

STATEMENT OF FACTS

For purposes of this motion only, the Moving Defendants have assumed the facts alleged in the Complaint to be true. Plaintiff Hewlett Packard Company filed this action in federal court against several business entities and individual defendants, including Bydesign Japan, Eyefi, lizuka and Kamb. Plaintiff has alleged that Kamb, a former HP employee, was the "ring-leader," Complaint, p. 2, and "secretly siphon[ed] information, ideas and resources from HP." Complaint, ¶ 67.

In 1996, "Kamb began working for Compaq Computer Corp. ("Compaq") as a Retail Consumer Account Manager." <u>Id</u>. at ¶ 19. In the Fall of 2000, Compaq promoted Kamb to the position of Director of Business Development and assigned Kamb to Compaq's office in Japan. <u>See Id</u>. at ¶ 21. Shortly thereafter, Kamb was promoted to the position of Vice President of Business Development. <u>Id</u>. When HP and Compaq merged in 2002, Kamb became an HP employee and remained in the same substantive position with the same responsibilities that he held at Compaq. <u>See Id</u>. at ¶ 26.

The technology for producing flat panel televisions and monitors had existed for some time and were becoming more commercially available and marketable in 2002. <u>See Id.</u> at \P 42. At around that same time, flat panel televisions and monitors were becoming particularly prevalent and available in Japan. <u>See Id.</u> at \P 43.

While working for HP/Compaq in Japan, Kamb had made acquaintance with Katsumi Iizuka, a Japanese citizen. *See Id.* at ¶ 45.

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In or about September 2003, Kamb presented the flat panel television business strategy and product line to HP. <u>See Id.</u> at \P 57. As alleged by Plaintiff, Kamb attempted to persuade HP to purchase televisions through Bydesign Japan and its manufacturers. <u>Id.</u> at \P 59.

On or about January 4, 2004, at the annual Consumer Electronics Show in Las Vegas, Nevada, HP's CEO, Carly Fiorina, publicly announced HP's plans to enter the flat panel television market. <u>See Id</u>. at \P 66. HP's display at the 2004 CES show included HP prototype LCD and PDP televisions which were the same televisions that had been manufactured for Bydesign Japan with only the front bezels modified to include the HP logo. <u>Id</u>.

By design Japan has entered into an agreement with one of the nation's largest consumer electronic retail chains, whereby the retailer sells its own line of flat panel televisions "designed and manufactured by by d:sign." Id. at ¶ 72.

On November 30, 2005, HP filed its Complaint against numerous individual and corporate defendants, including Bydesign Japan, Eyefi, Iizuka and Kamb. HP has asserted, *inter alia*, common law fraud (against all Moving Defendants), breach of fiduciary duty (against Kamb), constructive fraud (against Kamb) and a Civil RICO claim (against Kamb and Iizuka). In the Civil Rico claim, HP alleges that Kamb and Iizuka "engaged in a continuous pattern of racketeering predicated on, for example, violations of 18 U.S.C. § 1341 (mail fraud) and 18 U.S.C. 1343 (wire fraud)...." *Id*. at ¶ 153.

Plaintiff has also asserted a Lanham Act claim for unfair competition against all Moving Defendants and alleged that the "use of HP's design in the stream of interstate commerce falsely designates and misrepresents the origin of Defendants' designs." <u>See Id.</u> at ¶ 142 (emphasis added).

III.

LEGAL ARGUMENT

A. <u>Standard of Review</u>.

Federal Rule of Civil Procedure 12(b)(6) authorizes dismissal of a complaint for a "failure to state a claim upon which relief can be granted." FED. R. CIV. P. 12(b)(6). "[C]onclusory allegations or legal conclusions masquerading as factual conclusions will not suffice to prevent a motion to dismiss." *United States v. Georgia Gulf Corp.*, 386 F.3d 648, 654 (5th Cir. 2004). Also, Courts "will not 'strain to find inferences favorable to the plaintiffs."" *Southland Sec. Corp. v. Inspire Ins. Solutions Inc.*, 365 F.3d 353, 361 (5th Cir. 2004).

B. <u>Plaintiff's Civil Rico Claim Must Be Dismissed Because it Has Failed to State a</u> <u>Claim Upon Which Relief Can Be Granted</u>.

HP's Civil Rico Claim must be dismissed because HP has failed to state a claim upon which relief can be granted. "Reduced to plain English by th[e] Court in *In re Burzynski*, 989 F.2d 733, 741 (5th Cir. 1993), the subsections [of RICO] state:

- (a) a person who has received income from a pattern of racketeering cannot invest that income in an enterprise.
- (b) a person cannot acquire or maintain an interest in an enterprise through a pattern of racketeering.
- (c) a person who is employed by or associated with an enterprise cannot conduct the enterprise's affairs through a pattern of racketeering.
- (d) a person cannot conspire to violate subsections (a), (b), or (c)."

Whelan v. Winchester Prod. Co., 319 F.3d 225, 229 (5th Cir. 2003).

In this case, Plaintiff has failed to even allege whether its RICO claim is based on subsection (a), (b), (c) or (d), a very basic premise for a valid claim under RICO. In other words, Plaintiff has failed to state a RICO claim against Kamb and Iizuka with sufficient intelligibility

for a court or any party to evaluate whether a valid claim is alleged and, if so, what it is. Nevertheless, because there are no allegations that Kamb or Iizuka invested income in any enterprise, acquired or maintained an interest in any enterprise or conspired to violate any of the RICO subsections, the only remaining RICO claim for HP to allege is under subsection (c).

The Fifth Circuit has held that "[a] violation of section 1962(c) "requires (1) conduct (2) of an enterprise (3) through a pattern (4) of racketeering activity." <u>Old Time Enter., Inc. v.</u> <u>International Coffee Corp.</u>, 862 F.2d 1213, 1217 (5th Cir. 1989).

First, Plaintiff has failed to allege the existence of an enterprise. An enterprise is "an entity separate and apart from the pattern of activity in which it engages." <u>Old Time Enter.</u>, 862 F.2d at 1217. "In order to state a civil RICO claim, plaintiff[] must allege both the existence of an 'enterprise' and the connected 'pattern of racketeering activity." <u>Montesano v. Seafirst</u> <u>Commercial Corp.</u>, 818 F.2d 423, 427 (5th Cir. 1987). "Moreover, plaintiffs must plead specific facts, not mere conclusory allegations, which establish the enterprise." <u>Id</u>. In this case, although Plaintiff's RICO claim identifies seven different individual defendants and five separate enterprises, it has failed to allege with specificity which enterprise is connected with Kamb's and lizuka's alleged pattern of racketeering activity. Instead, Plaintiff has thrown out the entire "kitchen sink" and left this Court, and Kamb and Iizuka, to guess with which enterprise their alleged "pattern of racketeering" is connected. Courts have held that a complaint is deficient if "[i]t fails to identify specific acts of specific defendants" and where "[a]ll defendants are simply lumped together." <u>Shirey v. Bensalem Township</u>, 501 F. Supp. 1138, 1143 (E.D. Pa. 1980).

Second, Plaintiff has failed to allege that any purported predicate acts have the requisite "continuity' element required to establish a RICO pattern." <u>*Tel-Phonic Serv., Inc. v. TBS Int'l,*</u> <u>*Inc.*</u>, 975 F.2d 1134, 1140 (5th Cir. 1992). As the Fifth Circuit has held, "RICO reaches activities that 'amount to or threaten long-term criminal activity.'" <u>Id</u>. "Predicate acts extending over a few weeks or months and **threatening no future criminal conduct** do not satisfy this requirement." <u>Id</u>. (emphasis added). Further, that Court has held that "[s]hort-term criminal conduct is not the concern of RICO." <u>Id</u>. In <u>Tel-Phonic</u>, the Court dismissed a RICO claim where "[t]he allegations of the complaint suggest no 'series' of racketeering acts with the level of continuity that is required for a RICO violation." <u>Id</u>.

Similarly in the case at issue, Plaintiff has failed to allege that either Kamb or Iizuka engaged in any activities that amount to or threaten long term criminal conduct. "The continuous threat requirement may not be satisfied if no more is pled than that the person has engaged in a limited number of predicate racketeering acts." <u>Crowe v. Henry</u>, 43 F.3d 198, 204 (5th Cir. 1995). The Complaint is void of any allegation that there exists a threat of future criminal conduct by Kamb or Iizuka. Similar to the reasons that the RICO claim was dismissed in <u>Tel-Phonic</u>, Plaintiff has failed to allege that there is a "specific threat of repetition," or that the predicate acts or offenses are part of Kamb's or Iizuka's "regular way of doing business." <u>Tel-Phonic</u>, 975 F.2d at 1140. Also, there has been no suggestion that either Kamb or Iizuka are part of an "association that exists for criminal purposes." <u>Id</u>. Accordingly, Plaintiff has failed to allege that these predicate acts have the requisite "continuity' element required to establish a RICO pattern."

Third, HP has failed to adequately identify the predicate racketeering activities. Here, HP has alleged that Kamb and Iizuka "engaged in a continuous pattern of racketeering **predicated on**, for example, violations of 18 U.S.C. § 1341 (mail fraud) and 18 U.S.C. 1343 (wire fraud)..." Complaint, ¶ 153 (emphasis added). HP, however, has failed to allege, with particularity, the facts upon which the alleged predicate fraudulent acts are based. The Fifth

Circuit has held that "[t]o prove a 'pattern of racketeering activity,' a plaintiff must show **at least two predicate acts** of racketeering that are related and amount to or pose a threat of continued criminal activity." <u>Tel-Phonic</u>, 975 F.2d at 1139-40 (emphasis added). The Court also held that "Rule 9(b) requires particularity in pleading the 'circumstances constituting fraud.' This particularity requirement applies to the pleading of fraud as well as a predicate act in a RICO claim as well." <u>Tel-Phonic Serv., Inc.</u>, 975 F.2d at 1138. In <u>Tel-Phonic</u>, the plaintiff alleged that "[t]he RICO predicate acts were mail and wire fraud. The district court dismissed the RICO claims, finding that the Plaintiffs failed 'to allege a continuous pattern of intentional acts designed to defraud the plaintiffs' and **failed 'to plead with particularity the requisite elements of wire and mail fraud** pursuant to Rule 9(b)." <u>Id</u>. (citations omitted) (emphasis added). Moreover, "[a]t a minimum, Rule 9(b) requires allegations of the particulars of 'time, place, and contents of the false representations, as well as the identity of the person making the misrepresentation and what he obtained thereby."" <u>Tel-Phonic Serv., Inc.</u>, 975 F.2d at 1139.

In this case, Plaintiff has failed to allege a prima facie case of at least two predicate acts that serve as the basis for its RICO claim. First, Plaintiff has failed to allege necessary facts to assert a RICO claim based on mail fraud. The Fifth Circuit held that "[o]ur guideline for the elements of RICO mail fraud is: 1) a scheme to defraud by means of false or fraudulent representation, 2) interstate or intrastate use of the mails to execute the scheme, 3) the use of the mails by the defendant connected with scheme, and 4) actual injury to the plaintiff." *In re Burzynski*, 989 F.2d 733, 742 (5th Cir. 1993). In addition, "although reliance is not an element of statutory mail or wire fraud, we have required its showing when mail or wire fraud is alleged as a RICO predicate." *Thompson v. MasterCard Int'l Inc.*, 313 F.3d 257, 263 (5th Cir. 2002).

In this case, Plaintiff has failed to allege the second element of a RICO claim predicated on mail fraud, which requires that Kamb or Iizuka engaged in the "interstate or intrastate use of the mails to execute the scheme." Also, HP failed to allege the third required element, namely that the use of the mail system by Kamb or Iizuka was connected with the scheme. In this case, there is no allegation that Kamb or Iizuka used the interstate or intrastate mail system. Notwithstanding these two fatal pleading deficiencies, Plaintiff has also failed to plead the particulars of "time, place, and contents of the false representations, as well as the identity of the person making the misrepresentation and what he obtained thereby." *Tel-Phonic Serv., Inc.,* 975 F.2d at 1139. In other words, Plaintiff has failed to identify a single communication that is the subject of the alleged mail fraud.

Further, a showing of reliance is required when mail fraud is alleged as a RICO predicate. <u>See Thompson</u>, 313 F.3d at 263 (5th Cir. 2002). In this case, Plaintiff has failed to allege that it "relied" on any communication that is the subject of any alleged mail fraud. In other words, not only has HP has failed to plead a prima facie case, it has failed to plead the same with the requisite level of particularity required by the Fifth Circuit.

Plaintiff has also failed to plead a prima facie case of wire fraud with the requisite level of particularity. To prove wire fraud in violation of 18 U.S.C. § 1343, one must show that "a defendant knowingly participated in a scheme to defraud, that interstate wire communications were used to further the scheme, and that the defendant intended that some harm result from the fraud." <u>United States v. Freeman</u>, 434 F.3d 369, 377 (5th Cir. 2005). Here, Plaintiff has failed to plead a prima facie case that Kamb or Iizuka engaged in wire fraud. First, Plaintiff failed to allege that either Kamb or Iizuka knowingly participated in a scheme to defraud. Although Plaintiff's RICO claim "realleges the preceding paragraphs as if fully set forth herein,"

Complaint, ¶ 152, Plaintiff has failed to identify the fraudulent use of wires with any particularity, much less any scheme to defraud. Again, Plaintiff's Complaint is devoid of the requisite "time, place, and contents of the false representations, as well as the identity of the person making the misrepresentation and what he obtained thereby." <u>Tel-Phonic Serv., Inc.</u>, 975 F.2d at 1139.

Further, Plaintiff failed to allege that interstate wire communications were used to further the scheme. Instead, Plaintiff has alleged that several defendants, "engaged in various unfair practices affecting interstate and foreign commerce." Complaint, ¶ 154. However, there is no allegation that <u>interstate wire communications</u> were used to further any such alleged scheme. Moreover, not only has Plaintiff failed to allege a prima facie case of wire fraud against Kamb or lizuka with any particularity, but it has also failed to allege that it "relied" on any communication that is the subject of any alleged wire fraud. Accordingly, Plaintiff has failed to allege a prima facie case that Kamb or lizuka engaged in wire fraud as a predicate act for its RICO claim.

Lastly, Plaintiff has failed to allege that there is a causal relationship between the RICO predicate acts and its alleged damages. As the Fifth Circuit has held, "a proximate causal relation must exist between the RICO predicate acts and the plaintiff's damages." <u>Old Time Enter.</u>, 862 F.2d at 1218. In this case, Plaintiff has failed to allege how the predicate acts were the proximate cause of HP's damages. Accordingly, Plaintiff's RICO claim utterly fails to meet the requirements for such a claim and must be dismissed as to Kamb and Iizuka.

C. <u>Plaintiff's Fraud Claim Must be Dismissed</u>.

Plaintiff's fraud claim against the Moving Defendants must be dismissed because it has failed to plead a prima facie case with the requisite level of particularity. In the Fifth Circuit, "[t]he elements of fraud include: 1) a misstatement or omission; 2) of material fact; 3) made with

the intent to defraud; 4) on which the plaintiff relied; and 5) which proximately caused the plaintiff's injury." <u>Williams v. WMX Tech., Inc.</u>, 112 F.3d 175, 177 (5th Cir. 1997).¹

Rule 9(b) states, in pertinent part, that "[i]n all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity." FED. R. CIV. P. 9(b). "A plaintiff will not survive a Rule 9(b) motion to dismiss on the pleadings by simply alleging that a defendant had fraudulent intent." *Lovelace v. Software Spectrum Inc.*, 78 F.3d 1015, 1018 (5th Cir. 1996). The Fifth Circuit has "stated that Rule 9(b) requires the plaintiff to allege 'the particulars of 'time, place, and contents of false representations, as well as the identity of the person making the representation and what [that person] obtained thereby.''" *Tuchman v. DSC Communications Corp.*, 14 F.3d 1061, 1068 (5th Cir. 1994) (brackets in original). Moreover, "articulating the elements of fraud with particularity requires a plaintiff to **specify the statements** contended to be fraudulent, **identify the speaker**, state when and where the statements were made, and explain **why the statements were fraudulent**." *Williams*, 112 F.3d at 177 (5th Cir. 1997) (emphasis added).

In addition, "[u]nder Texas law, in the absence of a duty to disclose, mere silence does not amount to fraud or misrepresentation, and a *duty to disclose arises only* where a fiduciary or confidential relationship exists." *Imperial Premium Fin., Inc. v. Khoury*, 129 F.3d 347, 352 (5th Cir. 1998) (emphasis added). Also, "there must be a special relationship that creates a duty to disclose. This special relationship does **not exist in the employer-employee context**." *Hamilton v. Segue Software Inc.*, 232 F.3d 473, 481 (5th Cir. 2000) (emphasis added).

¹ To the extent the Fifth Circuit applied Texas state law for purposes of setting forth the fraud elements, Moving Defendants reference such a standard for purposes of this motion only and does not acknowledge that Texas state law should control with regard to the claims alleged against him.

In this case, Plaintiff has first failed to state a claim for fraud upon which relief can be granted because there is no allegation that any of the Moving Defendants made a "misstatement or omission" of material fact. Specifically, Plaintiff has alleged that "Defendants made material misrepresentations to HP regarding the lines of business at issue." Complaint, ¶ 132. Plaintiff, however, has failed to state with particularity the "misstatement" actually made by any of the Moving Defendants. In Plaintiff's Tenth Cause of Action for Fraud, Plaintiff failed to identify any misstatement made by the Moving Defendants.

Instead, the only conceivable basis for a fraud claim is based on allegations of two omissions (not misstatements) attributed to Kamb. Specifically, Plaintiff alleges that "Kamb did not reveal to HP that he . . . had already formed and was running byd:sign while still on HP's payroll, " Complaint, ¶ 55, and that "[n]either Kamb nor McEachern revealed their interest in byd:sign or their activities outside of HP at any of these meetings," Complaint, ¶ 64. However, under Texas law, in the absence of a duty to disclose, mere silence does not amount to fraud or misrepresentation. *See Imperial Premium Fin., Inc. v. Khoury*, 129 F.3d at 352 (5th Cir. 1998). In order for there to exist a duty to disclose, there must be a special relationship that creates the same. *See Hamilton v. Segue Software Inc.*, 232 F.3d 473, 481 (5th Cir. 2000). This requisite special relationship "does not exist in the employer-employee context." *Hamilton*, 232 F.3d at 481.

Here, Plaintiff does not dispute – and in fact acknowledges - Kamb was **an employee** of HP. <u>See</u> Complaint, \P 26. As an employee of the Plaintiff, Kamb had no duty to disclose any relationship that he may have had with Bydesign Japan. Plaintiff's fraud claim, therefore, cannot be based on any of Kamb's alleged omissions.

Accordingly, Plaintiff has failed to state a claim for fraud upon which relief can be granted and this claim must be dismissed.

D. <u>Plaintiff's Breach of Fiduciary Duty Claim Against Kamb Must be Dismissed</u> <u>Because Such a Relationship Does Not Exist In the Employer-Employee Context.</u> <u>Also, Plaintiff's Constructive Fraud Claim Must be Dismissed Because There is No</u> <u>Allegation of a Special Relationship of Confidence and Trust.</u>

Plaintiff's claim for breach of fiduciary duty as to Kamb and its request for the imposition of a constructive trust over, *inter alia*, the assets of Bydesign Japan and Eyefi must be dismissed because a fiduciary relationship does not exist in the employer-employee context. As one court has held, "[t]here is no support for a conclusion that the law would have implied a fiduciary relationship between an employee and employer in the context of litigation between the two. No such claim would have been recognized at common law...." *Estate of Sworden v. Reynolds Metals Co.*, No. CV-04-1048-HU, 2005 WL 1389073, at *16 (D. Or. Jun. 8, 2005). Moreover, "courts have repeatedly rejected claims of constructive trust in the employment context due to the absence of a fiduciary relationship between an employee." *Bausch & Lomb Inc., v. Alcon Lab., Inc.*, 64 F. Supp. 2d 233 (W.D.N.Y. 1999).

In this case, Plaintiff's basis for alleging that a fiduciary relationship existed between Kamb and HP is that the former was an employee of HP. <u>See</u> Complaint, ¶91. However, a fiduciary relationship does not exist in the employer-employee context, and it certainly cannot serve as a basis for the imposition of a constructive trust over the assets of Bydesign Japan and Eyefi. Further, the Fifth Circuit has held that "[a] constructive trust generally arises when a person **with legal title** to property owes equitable duties to deal with the property for the benefit of another." *Carolin Paxson Adver., Inc. v. Texas Commerce Bank*, 938 F.2d 595, 597 (5th Cir. 1991). Even assuming that the facts as alleged by Plaintiff are true, there is no authority for the imposition of a constructive trust over the assets of another party such as Bydesign Japan and

Eyefi. There is no allegation that Kamb is an owner of these two entities and there is no basis to assert a constructive trust over the assets of Bydesign Japan and Eyefi that are not owned by him. Accordingly, Plaintiff's claim for breach of fiduciary duty must be dismissed.

Moreover, Plaintiff's constructive fraud claim against Kamb must be dismissed. "Constructive fraud is the breach of some legal or equitable duties which the law declares fraudulent because it tends to violate a fiduciary relationship." <u>Belton v. Dover Properties Sales,</u> <u>Inc.</u>, No. 3-85-0557-H, 1985 WL 8797, at *1 (N.D. Tex July 16, 1985). "The actual relationship between the parties must be examined to determine whether there was a special relationship of confidence and trust." <u>Id</u>. In this case, Plaintiff has failed to allege the existence of a special relationship of confidence and trust necessary for a constructive fraud claim and based upon the case law cited above, such a relationship does not exist in the employer – employee context. Moreover, Plaintiff again fails to identify the specific acts of Kamb and has instead made general allegations that lump all defendants together. Accordingly, Plaintiff's claim for constructive fraud must be dismissed.

E. <u>Plaintiff's Lanham Act Claim Based on Unfair Competition Must Be Dismissed</u> Because It Has Failed to Allege a Prima Facie Case.

In Plaintiff's Complaint, it has alleged that Defendants violated Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). Complaint, ¶ 141. 15 U.S.C. § 1125(a) includes a claim for unfair competition, 15 U.S.C. § 1125(a)(1)(A), and false advertising, 15 U.S.C. § 1125(a)(1)(B). *See MCW, Inc. v. Badbusinessbureau.com, LLC*, No. Civ.A.3:02-CV-2727, 2004 WL 833595, at *11 (N.D. Tex. Apr. 19, 2004). Although there are two subsets of claims under 15 U.S.C. § 1125(a), Plaintiff has alleged, for its "Twelfth Cause of Action" that it seeks relief for "Lanham Act Unfair Competition." Complaint, ¶¶ 140-44. The United States Code section pertaining to unfair competition, 15 U.S.C. § 1125(a)(1)(A), provides:

(a) Civil action

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or...

15 U.S.C. § 1125(a)(1)(A).

"The unfair competition or 'consumer confusion' section of the Lanham Act 'is intended to prevent confusion, mistake, or deception regarding the *source* of goods or services."" <u>MCW</u>, <u>Inc.</u>, 2004 WL 833595, at *11 (N.D. Tex. Apr. 19, 2004) (emphasis in original).

The Fifth Circuit has held that "[p]ersons bringing an action pursuant to [15 U.S.C. \$ 1125(a)(1)(A)] must demonstrate that (1) the defendants made false statements of fact about the [product]; (2) those statements deceived, or had the potential to deceive, a substantial segment of potential customers; (3) the deception was material, in that it tended to influence purchasing decisions; (4) the defendants caused their products to enter interstate commerce; and (5) the claimant has been or is likely to be injured as a result." *King v. Ames*, 179 F.3d 370, 373-74 (5th Cir. 1999).

In this case, Plaintiff has failed to plead a prima facie case of Lanham Act Unfair Competition under 15 U.S.C. § 1125(a)(1)(A). First, Plaintiff fails to allege that Moving Defendants "made a false statement of fact about the product." Instead, Plaintiff alleges in conclusory fashion that "Defendants use of HP's design in the stream of interstate commerce falsely designates and misrepresents the origin of **Defendants' designs**." Complaint, ¶ 142 (emphasis added). Here, however, Plaintiff fails to allege that the Moving Defendants made any statement at all, much less one that was a false statement of fact.

Second, Plaintiff fails to allege that any statement made by the Moving Defendants deceived, or had the potential to deceive, "a substantial segment of potential customers." Here, there is no allegation that any false statement of fact made by Moving Defendants had the potential to deceive a substantial segment of potential customers. Instead, Plaintiff has alleged that the only party deceived was itself. Specifically, Plaintiff alleges that "[f]or over two years, the former high-level HP employees were able to hide their wrongdoing from HP...." Complaint, p. 2. In other words, the substance of Plaintiff's claim is that Kamb, *inter alia*, "seiz[ed] an otherwise available business opportunity from HP." Complaint, ¶ 52. This does not show the requisite deception of customers.

Third, Plaintiff fails to allege that any false statement of fact allegedly made by the Moving Defendants tended to influence consumer purchasing decisions. Instead, Plaintiff alleges only, in conclusory form, that Defendants' actions "create[ed] a likelihood of confusion to those third persons to whom Defendants made such representations." Complaint, ¶ 142. There is simply no allegation, however, that the Moving Defendants made such representations to any consumers and that these consumers were influenced by any false statement.

Moreover, Plaintiff is essentially alleging that the Moving Defendants are subject to liability for the "reverse palming [or passing] off" of HP's design. "Reverse palming off" (or 'reverse passing off,' as it is sometimes called) occurs when '[t]he producer misrepresents someone else's goods or services as his own." <u>General Universal Sys., Inc. v. Hal</u>, 379 F.3d 131, 148 (5th Cir. 2004) (brackets in original). "A defendant may also be guilty of reverse palming off by selling or offering for sale another's product that has been modified

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slightly and then labeled with a different name." <u>Roho, Inc. v. Marquis</u>, 902 F.2d 356, 359 (5th Cir. 1990). In contrast, "Passing off (or palming off, as it is sometimes called) occurs when a producer misrepresents his own goods or services as someone else's." <u>Dastar Corp. v. Twentieth</u> <u>Century Fox Film Corp.</u>, 539 U.S. 23, 28, 123 S.Ct. 2041, 2045, n. 1. (2003). For example, Section 43(a) of the Lanham Act "forbids . . . the Coca-Cola Company's passing off its product as Pepsi-Cola or reverse passing off Pepsi-Cola as its product." <u>Dastar</u>, 539 U.S. at 32, 123 S.Ct. at 2047.

Plaintiff's reverse palming off claim is based on the allegation that "Defendants use of HP's design in the stream of interstate commerce falsely designates and misrepresents the origin of Defendants' designs." Complaint, ¶ 142. However, Plaintiff makes no allegation that the Moving Defendants misappropriated HP's "services or goods." Instead, Plaintiff alleges that the Moving Defendants are liable under the Lanham Act because they misappropriated HP's **ideas**, as opposed to actual goods or services. Specifically Plaintiff alleges that the Moving Defendants "secretly siphon[ed] information, ideas and resources from HP." Complaint, ¶ 67. Moreover, Plaintiff alleges that Kamb and his purported co-conspirators "funneled their research, analysis and competitive intelligence to their byd:sign enterprise." Complaint, ¶ 65.

The Fifth Circuit, however, has held that for purposes of the Lanham Act "the term 'origin' in § 43(a) applies only to 'the producer of the tangible goods that are offered for sale, and **not to the author of any idea, concept, or communication** embodied in those goods."" *General Universal Sys.*, 379 F.3d at 149 (emphasis added). In other words, even if Plaintiff's allegations are taken as true, there has been no Lanham Act violation because there has been no misappropriation of "goods or services." Accordingly, Plaintiff's Lanham Act claim is insufficient because there is no allegation that the Moving Defendants misappropriated actual

goods (e.g., flat panel televisions), only ideas. Quite simply, there is no allegation that the Moving Defendants took HP's flat panel television sets, labeled them under a different name and then sold them. Instead, Plaintiff is attempting to "pound a square peg in a round hole" with respect to its Lanham Act claim because there is simply no allegation that "goods or services" were misappropriated.

Accordingly, Plaintiff's Lanham Act Claim for Unfair Competition must be dismissed.

IV.

CONCLUSION

Plaintiff's claims for Civil RICO, Lanham Act Unfair Competition, breach of fiduciary duty, constructive fraud and common law fraud must be dismissed, pursuant to Rule 12(b)(6). Plaintiff has simply failed to plead a prima facie case for these claims and furthermore failed to plead with sufficient particularity its claims for Civil Rico and common law fraud as required by FED. R. CIV. P. 9(b). Moreover, this Court should exercise its discretion to dismiss this entire case because there is no remaining federal claim to support federal question jurisdiction herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that on this 4th day of April, 2006, a true and correct copy of the foregoing DEFENDANTS BYDESIGN JAPAN, EYEFI, KATSUMI IIZUKA and KARL KAMB, JR'S MOTION TO DISMISS AND SUPPORTING BRIEF was served electronically.

/*S*/ *Ryan C. Wirtz* Ryan C. Wirtz