

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
HARRISONBURG DIVISION**

S&S COMPUTERS AND DESIGN, INC.,)	
)	
Plaintiff,)	Civil Action No. 5:00-CV-00058
)	
v.)	<u>MEMORANDUM OPINION</u>
)	
PAYCOM BILLING SERVICES, INC.,)	By: Samuel G. Wilson,
)	Chief United States District Judge
Defendant.)	

This is an action brought by plaintiff S&S Computers & Design, Inc., (“S&S”), against defendant Paycom Billing Services, Inc., (“Paycom”), alleging breach of contract. Paycom has filed a counterclaim alleging misappropriation of trade secrets, breach of fiduciary duty, and a right to restitution of the money already paid to S&S. The court has jurisdiction pursuant to 28 U.S.C. § 1332.¹ This matter is before the court on S&S’s motion to dismiss Paycom’s counterclaims for misappropriation of trade secrets and breach of fiduciary duty and, in the alternative, motion for a more definite statement. Finding that Paycom has stated a valid claim for misappropriation of trade secrets, but that Paycom’s breach of fiduciary claim is displaced by the Virginia Uniform Trade Secrets Act (“VUTSA”), Va. Code Ann. § 59.1-341 to -343 (Michie 1998), the court will grant in-part and deny in-part S&S’s motion to dismiss; specifically, the court will dismiss only Paycom’s breach of fiduciary duty claim. Furthermore, finding that Paycom has pled sufficient facts to put S&S on notice, the court denies S&S’s motion for a more definite statement.

¹Paycom is a Delaware corporation with its principle place of business in California. S&S is a Virginia corporation with its principle place of business in Virginia.

I.

Paycom, an Internet payment processing and billing services company, contacted S&S to obtain its computer programming services to structure Paycom's database to be more efficient. Paycom drafted an agreement in which Paycom was to provide S&S with a minimum of 6,000 hours of labor at the rate of \$200 per hour for work conducted on-site (at Paycom's place of business in California) and \$150 per hour for work conducted off-site (at S&S's place of business in Virginia). Paycom sent the agreement to S&S, and S&S signed the agreement, but it seems that Paycom never signed it.

Pursuant to the agreement, Paycom shipped their "Sun Box" (a large Sun System E-450 computer server) to S&S in Virginia, which contained Paycom's database information and the computer source code that controlled their database. After S&S had incurred reimbursable expenses of \$11,324.69 and had completed 2,305 hours of work, resulting in invoices totaling \$359,474.69, relations between the two companies soured. Of the \$359,474.69 invoiced, Paycom had paid only \$92,657.69 as of the commencement of this suit on July 10, 2000.

S&S's complaint alleges that Paycom breached their contract by refusing to pay for the invoiced work and for refusing to honor Paycom's guarantee of a minimum of 6,000 hours of work. On February 20, 2001, Paycom filed a counterclaim against S&S, asserting misappropriation of trade secrets, breach of fiduciary duty, and a right to restitution of the money already paid to S&S. This matter is now before the court on S&S's motion to dismiss Paycom's counterclaims for misappropriation of trade secrets and breach of fiduciary duty. In the alternative, S&S moves for a more definite statement. The court heard oral argument on the motions on April 2, 2001, so the motions are now ripe for disposition.

II.

To state a claim under the Virginia Uniform Trade Secrets Act (“VUTSA”), Va. Code Ann. § 59.1-341 to -343 (Michie 1998), a plaintiff must allege (1) that the information at issue is a trade secret and (2) that the defendant misappropriated it. VUTSA defines “trade secret” as:

information, including but not limited to, a formula, 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.

Va. Code Ann. § 59.1-336. “Misappropriation” is defined as:

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;² or
2. Disclosure or use of a trade secret of another without express or implied consent by a person who
 - a. Used improper means to acquire knowledge of the trade secret; or
 - b. At the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
 - (1) Derived from or through a person who had utilized improper means to acquire it;
 - (2) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use;
 - (3) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
 - (4) Acquired by accident or mistake.

Id.

Here, Paycom has alleged that its software, hardware, and documents constitute information that derives economic value from being not generally known to, or easily

²“Improper means” is defined as including “theft, bribery, misrepresentation, breach of a duty or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.” Va. Code. Ann. § 59.1-336.

ascertainable by, the general public. (Paycom’s CC at ¶¶ 18-20.) Paycom has also alleged that its information is the subject of efforts to maintain its secrecy, such as password protection, physical locks, limited access, and non-disclosure agreements. (Id. at ¶ 20.) These allegations, if proven, are sufficient to establish its proprietary information as a trade secret under VUTSA. Paycom also alleges that S&S acquired Paycom’s proprietary information under circumstances giving rise to a duty to maintain its secrecy or limit its use, and that S&S disclosed this information to third parties without Paycom’s permission, causing detriment to Paycom. (Id. at ¶¶ 21-24, 28-30.) The court concludes that these allegations adequately set forth each element under VUTSA, and therefore state a valid claim for misappropriation of trade secrets.

S&S also objects to Paycom’s request for punitive damages, attorneys’ fees, and injunctive relief. VUTSA provides for punitive damages and attorneys’ fees where “willful and malicious misappropriation” is proven. Va. Code Ann. § 59.1-338(B), -338.1(ii). Here, Paycom has made that allegation (Paycom’s CC at ¶ 25), and if a fact-finder determines that S&S misappropriated Paycom’s trade secrets willfully and maliciously, then Paycom would be entitled to punitive damages and attorneys’ fees. Paycom has also asked for injunctive relief (id. at ¶ 26), and Va. Code Ann. § 59.1-337 provides for injunctive relief to remedy a violation of VUTSA. Consequently, the court concludes that it would be premature to rule out punitive relief, attorneys’ fees, or injunctive relief at this stage.

III.

Paycom also counterclaims for breach of fiduciary duty; however, this common-law claim, which is based on S&S’s alleged misappropriation of trade secrets, is displaced by VUTSA. The relevant section of VUTSA provides:

A. Except as provided in subsection B of this section, this chapter displaces conflicting tort, restitutionary, and other law of this Commonwealth providing civil remedies for misappropriation of a trade secret.

B. This chapter does not affect:

- a. Contractual remedies whether or not based upon misappropriation of a trade secret; or
- b. Other civil remedies that are not based upon misappropriation of a trade secret; or
- c. Criminal remedies, whether or not based upon misappropriation of a trade secret.

Va. Code Ann. § 59.1-341. Thus, a claim for breach of fiduciary duty, which is based on the misappropriation of a trade secret, is displaced by VUTSA. See NSW Corp. v. Ferguson, 49 Va. Cir. 456, 457 (City of Roanoke 1999) (sustaining a demurrer as to a claim of breach of fiduciary duty, finding that where “the claimed remedy is based on the misappropriation of a trade secret by any improper means, the Plaintiff’s exclusive remedy lies in the Virginia Uniform Trade Secrets Act”). “The plain language of the preemption provision indicates that the law was intended to prevent inconsistent theories of relief for the same underlying harm by eliminating alternative theories of common law recovery which are premised on the misappropriation of a trade secret.” Smithfield Ham and Products Co., Inc. v. Portion Pac, Inc., 905 F. Supp. 346, 348-349 (E.D. Va. 1995).

Here, Paycom’s claim for breach of fiduciary duty is based on S&S’s alleged misuse of Paycom’s trade secrets. (Paycom’s CC at ¶ 29.) Paycom admits in its response brief that “[t]he same allegations [that are required for VUTSA] support a common law cause of action for breach of fiduciary duty.” Thus, the court concludes that Paycom’s claim for breach of fiduciary duty is displaced by VUTSA.

IV.

Finally, S&S moves for a more definite statement pursuant to Federal Rule of Civil Procedure 12(e). Rule 12(e) states that “[i]f a pleading to which a responsive pleading is permitted is so vague or ambiguous that a party cannot reasonably be required to frame a responsive pleading, the party may move for a more definite statement before interposing a responsive pleading.” Fed. R. Civ. P. 12(e). The Federal Rules of Civil Procedure only require that a plaintiff’s statement of the claim put the defendant on notice. See Fed. R. Civ. P. 8(a)(2) (“a short and plain statement of the claim”). Here, Paycom’s counterclaim has met that requirement. S&S may glean additional details through discovery.

V.

For the reasons stated above, the court grants in-part and denies in-part S&S’s motion to dismiss Paycom’s counterclaim; specifically, the court will only dismiss Paycom’s breach of fiduciary duty claim. Further, the court denies S&S’s motion for a more definite statement. An appropriate order will be entered this day.

ENTER: This 5th day of April, 2001.

CHIEF UNITED STATES DISTRICT JUDGE

**IN THE UNITED STATES DISTRICT COURT
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**S&S COMPUTERS AND DESIGN,)
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Plaintiff,)

v.)

PAYCOM BILLING SERVICES, INC.,)

Defendant.)

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ORDER

**By: Samuel G. Wilson,
Chief United States District Judge**

In accordance with the Memorandum Opinion entered this day, it is **ORDERED and ADJUDGED** that S&S's motion to dismiss Paycom's counterclaim is **GRANTED in-part and DENIED in-part**; specifically, the court dismisses only Paycom's breach of fiduciary duty claim. It is further **ORDERED** that S&S's motion for a more definite statement is **DENIED**.

ENTER: This 5th day of April, 2001.

CHIEF UNITED STATES DISTRICT JUDGE