

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF MISSOURI  
EASTERN DIVISION

CUSTOM HARDWARE ENGINEERING )  
& CONSULTING, INC., )

Plaintiff/Counterclaim-Defendant, )

vs. )

JONATHAN D. DOWELL, *et al.*, )

Defendants/Counterclaim-Plaintiffs. )

Case No. 4:10CV000653 ERW

**MEMORANDUM AND ORDER**

This matter comes before the Court on Defendants' Motion for Summary Judgment on All Counts of Plaintiff's Second Amended Complaint [ECF No. 288], Plaintiff Custom Hardware Engineering & Consulting, Inc.'s ("CHE") Motion for Summary Judgment as to Counts III through VI of CHE's Second Amended Complaint [ECF No. 302], and CHE's Motion to Strike Declaration of John Dowell [ECF No. 330].

CHE filed its Second Amended Complaint ("SAC") for Injunctive Relief and Damages against Defendants Jonathan D. Dowell, Marcus K. Smith, Laura Smith, William Pilling, and TriPoint Development, Inc. ("TriPoint"), alleging the following causes of action: 1) Copyright Infringement (against all Defendants); 2) Violation of Federal Fraud and Abuse Act (against all Defendants); 3) Breach of Contract (against Dowell, Marcus Smith, and Laura Smith); 4) Breach of Contract (against Pilling); 5) Breach of Fiduciary Duty and Duty of Loyalty (against Dowell, Marcus Smith, Laura Smith and Pilling); 6) Tortious Interference with Contract (against TriPoint); 7) Misappropriation of Trade Secrets (against all Defendants); 8) Unfair Competition (against all Defendants); 9) Civil Conspiracy (against all Defendants); 10) Replevin (against all

Defendants); 11) Conversion (against all Defendants); and 12) Unjust Enrichment (against all Defendants).

Defendants filed several counterclaims in this matter, naming CHE and David York as Counterclaim-Defendants [ECF Nos. 58, 59, 60, 61, 167, 169]. Laura Smith and Third Party Plaintiff Linda Pilling filed Third Party Complaints against CHE and York [ECF No. 62, 63, 167, 169].

#### **I. STATEMENT OF UNDISPUTED FACTS**

The following fact statement is a recitation of undisputed facts taken from Plaintiffs' Second Amended Complaint for Injunctive Relief and Damages [ECF No. 147], Defendants' Joint Answer and Affirmative Defenses to Plaintiffs' Second Amended Complaint for Injunctive Relief and Damages [ECF No. 154], Defendants' Statement of Uncontroverted Material Facts [ECF No. 291], Plaintiff Custom Hardware Engineering & Consulting, Inc.'s Response to Defendants' Statement of Uncontroverted Material Facts [ECF No. 314-1], Defendants' Reply to Plaintiff's Response to Defendants' Statement of Uncontroverted Material Facts and Statement of Additional Facts [ECF No. 325-1], Plaintiff Custom Hardware Engineering & Consulting, Inc.'s Statement of Uncontroverted Material Facts in Support of Its Motion for Summary Judgment as to Counts III, IV, V and VI of Its Second Amended Complaint [ECF 304-1], Defendants' Response to Plaintiff's Statement of Uncontroverted Material Facts in Support of its Motion for Summary Judgment as to Counts III, IV, V and VI of Its Second Amended Complaint [ECF No. 319], Defendants' Statement of Controverted and Additional Facts in Support of Their Response to Plaintiff's Motion for Summary Judgment as to Counts III, IV, V, and VI of Its Second Amended Complaint [ECF NO. 319-1], and Plaintiff's Response to Defendants' Statement of Controverted and Additional Facts in Support of Their Response to Plaintiff's

Motion for Summary Judgment as to Counts III, IV, V and VI of Its Second Amended Complaint [ECF No. 337-1].

CHE is a Delaware corporation with its principal place of business in Fenton, Missouri. CHE's President and Chief Executive Officer is David York. In addition to its Fenton office employees, CHE has employees working from home across thirty-seven states. In the course of its business, CHE provides, among other things, computer hardware maintenance services on IBM, STK, EMC, HP, Sun Microsystems, HDS, Spectrologix, Quantum, and several other computer systems. As part of the hardware services that it provides, CHE has developed and fielded remote monitoring technology that allows CHE personnel to monitor and troubleshoot computer systems remotely. CHE provides its services to commercial and government entities in all parts of the United States, including Missouri and Texas. Some of CHE's customers are Mainline, IBM, Service Express, Sentinel, SSCS, MVSS, Telestra, Bank of America, Fannie Mae, and the State of California.

Defendants Dowell, Marcus Smith, and Laura Smith are residents of McKinney, Texas. Defendant Pilling is a resident of Tucson, Arizona. Defendant TriPoint is a Texas corporation with its principle place of business in McKinney, Texas. CHE employed Pilling as a Software Engineer in April 2003, and Dowell as a Systems Analyst in June 2005. In 2007, Dowell told Marcus Smith about an employment opportunity with CHE, and Marcus Smith applied for the position. CHE hired Marcus Smith as a Director of Security and Information Systems in March 2007, and it employed his wife, Laura Smith, as a Software Quality Assurance Specialist in the spring of 2008. Marcus Smith, Laura Smith, Dowell, and Pilling signed Employment

Agreements with CHE. The agreements<sup>1</sup> executed by Dowell, Marcus Smith, and Laura Smith contain non-waiver clauses, stating that no modification, amendment or waiver of the agreements' provisions would be effective unless made in writing, and further provide, in part:

3. Faithful Performance Employee acknowledges that he [or she] is employed by CHE in a fiduciary relationship of trust and confidence and therefore agrees to devote his or her full time and attention to the business and affairs of CHE and, at all time, to use his [or her] best efforts to promote the interests of CHE and to faithfully and efficiently perform the responsibilities assigned to him [or her] to the fullest extent necessary to discharge such responsibilities. Further, Employee agrees that during his [or her] employment, he [or she] will not accept employment of any nature, including self employment, for which remuneration is received unless said employment is recognized, agreed to and approved in writing by CHE in its sole discretion prior to such other employment or association. Employee also agrees he [or she] shall have no financial or other interest in any business entity which detracts from, or interferes with, Employee devoting his [or her] full time and attention to CHE's business without the prior, written permission of CHE in its sole discretion.<sup>2</sup>

Pilling's Employment Agreement with CHE also included a nonwaiver clause [ECF No.

304-5]. Section 2 of Pilling's agreement provided, in part:

[E]mployee will devote Employee's full time and attention to the business of, and work exclusively for CHE unless otherwise agreed to by CHE's President, and shall not work for or assist any competitor of CHE or have any discussions with another person or business about engaging in any activity in competition with CHE.

CHE issued computers and other equipment to Dowell, Marcus Smith, and Laura Smith as part of their employment. These defendants were contractually obligated, by the terms of their employment agreements, to return all CHE property upon termination:

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<sup>1</sup>The language in the agreements signed by Marcus Smith and Laura Smith differ slightly from the language contained in the agreement by Dowell, in that the Smith Employment Agreements use the pronouns "he or she" to refer to the Employee, whereas the language in Dowell's uses only the masculine pronoun for the reference [ECF Nos. 304-8, 304-11, 296-4].

<sup>2</sup>The Court notes that CHE has indicated that this language is contained in Section 1 of the agreements; however, the quoted language is actually contained in Section 3.

4.6. Return of Company Property. Employee acknowledges that all written records, databases, source code, CDs, DVDs, and disks containing information relating to CHE's business, including, without limitation, memoranda, notes, correspondence, reports, manuals, books, papers, letters, Client profile data, orders, customer lists, contracts, software programs, drafts, and other documentation (whether in draft or final form), and other sales, financial or technical information relating to CHE's business, and any and all other documents containing Company Information furnished to Employee by any representative of CHE or otherwise acquired or developed by him [or her] in connection with his [or her] association with CHE (collectively, "Recipient Materials") shall at all times be CHE's exclusive property. Within twenty-four (24) hours of termination of his [or her] employment, Employee promises to return any Recipient Materials that are in his [or her] possession, custody or control, regardless of whether such Materials are located in Employee's office or automobile, or on Employee's office, home or personal computer. . . . Additionally, within twenty-four (24) hours of the termination of his [or her] employment, Employee . . . shall disclose any and all passwords or codes required to gain access to such devices.

Pilling's "Employee Confidentiality and Non-Competition Agreement" with CHE provided that, upon his termination , "and at any time or times before then when requested by CHE," Pilling would "return to CHE, and shall not retain, all CHE property and all documents, computer disks, and other electronic storage media containing or embodying any Confidential Information, and shall destroy or erase all such information from all non-CHE owned information systems and electronic media storage disks (but first shall make a copy of the same and deliver it to CHE)." The agreement also stated that, because compliance with this provision might require data to be removed from Pilling's personal or home computer equipment, Pilling granted CHE or its contractors access to such equipment for that purpose.

During the course of their employment with CHE, Defendants were provided access to CHE's trade secrets and confidential proprietary information, including copyrighted computer programs identified as E-PET, E-LEM, and ERDS. CHE's intellectual property also includes the source code for E-LEM, E-PET 1.9, E-PET 4.0, FED-AA, SAM, ARG, ERDS, SERPA, Blue Bayou, TDT, DDT, and CHE's MySQL database structure. E-LEM, E-PET1.9, E-PET 4.0,

SERPA and Blue Bayou are remote monitoring tools. DDT is used in conjunction with E-PET 1.9, and TDT is used in conjunction with E-LEM. The SAM (Service Account Manager) program is utilized to monitor employee activity.

In Section 3 of his "Employee Confidentiality and Non-Competition Agreement," Pilling agreed to never "publicize, or disclose or reveal to any third party not employed or engaged by CHE any Confidential Information," and to "never use (or attempt to recreate by memory or otherwise) any Confidential Information except for CHE's benefit" during Pilling's period of employment with CHE. Dowell's, Mr. Smith's, and Mrs. Smith's Employment Agreements limited their use of CHE information as follows:

4.2.2. Employee agrees not to, directly or indirectly; participate in the unauthorized use, disclosure, or conversion of any Company Information. Employee agrees not to use Company Information for the benefit of a competitor or in any other way that harms CHE or diminishes the value of Company Information.

As Director of Security and Information Systems, Marcus Smith was responsible for the day-to-day operations of CHE's current and future network systems. His duties and responsibilities included developing a company network equipment design requirements document for business systems' enhancement; developing a collocation network strategy and implementation plan; and developing a company network security strategy that would insure high availability to CHE team members but, at the same time, lock out competitors and other unwanted network attacks. He was also in charge of implementing proper software testing procedures for programs developed by company software personnel; supervising, as a senior developer, the software coders, the design of the code; and supervising other company network personnel and resources. Within three months of his hire, Marcus Smith became the direct supervisor of Pilling, Dowell, and an employee named Terry Neckar.

In late May 2008, Pilling, Dowell, and Marcus Smith decided to form an entity they would call "TriPoint Development." TriPoint, a "custom solutions and consulting" information technology firm, was formed in June 2008, by Dowell, Marcus Smith, Pilling, and Linda Pilling. Marcus Smith and William Pilling owned two-thirds of TriPoint's shares. Defendants operated Tri-Point, serviced TriPoint customers, invoiced its customers, and collected revenue on its behalf during the time period between July 2008 and February 20, 2009. Defendants were employed by CHE at all times between July 2008 and February 20, 2009. After leaving CHE on February 20, 2009, Defendants continued to operate and perform work for TriPoint. According to information displayed on its company website, TriPoint specializes in the design and implementation of Great Plains and other Microsoft development applications; provides in-house solutions developed to meet the student tracking and administrative needs of the educational market; and develops, through its Remote Systems Group, custom solutions around mainframe tape and disk storage systems. One of TriPoint's computer programs, "CIT" captures customer information and allows incoming phone calls to be tracked by the customer's caller ID and to be logged into a database.

TriPoint provided services as a subcontractor for Matrix while Defendants were still employed at CHE. In its relationship with Matrix, TriPoint performed work for several companies with Texas locations, including Pioneer, Pinnacle Anesthesia, Rapp Collins Consulting, Trintech, Independent Banker's Bank, and Enfora. TriPoint also performed some business as a subcontractor through a company called the Harbor Group. Defendants did not have written permission to perform side work while employed by CHE, and Defendants did not inform CHE of TriPoint's existence, or that they were providing services to TriPoint.

On October 1, 2008, David York sent an e-mail to Marcus Smith, in which York described several issues that had not been accomplished by Marcus Smith and his team, and warned, “Either you and every member of your team get your selves organized, communicating effectively and producing functional deliverables or I will take actions to find replacement personnel who can do precisely that” [ECF No. 314-8 at 1-2]. In this e-mail, York detailed numerous issues existing within Marcus Smith’s department and with his teams, including the team’s failure to communicate, follow-up, and keep CHE’s systems running. York also stated, “I requested on or about August 19, 2008 a total systems design paper with logins and passwords. I get an e-mail that basically says nothing nor demonstrates anything in that regard” [ECF No. 314-8 at 1].

CHE uses a program called Star Team to store and maintain its source code [ECF No. 325-1 at 40]. While employed at CHE, Defendants began using a program called Groove to store CHE’s source code [ECF No. 325-1 at 40].

On February 20, 2009, David York notified Defendants and others that a mandatory meeting had been scheduled for that afternoon [ECF No. 314-20 at 1-2]. The mandatory meeting resulted from ongoing issues, many of which were outlined in York’s October 1, 2008 e-mail to Marcus Smith. York’s February 20th e-mail included an agenda for the conference call, and advised the recipients that they were going to address problems happening with various tools provided by CHE.

Prior to the mandatory meeting, Pilling had a conference call with Dowell and the Smiths. Approximately one hour after receiving the e-mail calling a mandatory meeting, Pilling sent an e-mail telling York he was resigning. Subsequently, the other defendants, and Laura Smith, sent similar e-mail communications. All of the individual defendants attempted to resign from CHE



on or about February 20, 2009. However, York rejected their resignations, and terminated them on that date. Following their terminations, Defendants continued to operate and perform work for TriPoint.

Defendants eventually returned CHE property, including the computers they used to perform their job duties with CHE. Pilling returned his personal computer and CHE equipment after CHE compensated him for it. Upon inspection, CHE was unable to find any of its source code on Dowell's, Pilling's, Marcus Smith's, or Laura Smith's computers. CHE has remained unable to locate its source code [ECF No. 325-1 at 8-9, 40-41].

CHE initiated this litigation on April 20, 2010 [ECF No. 1]. During the course of discovery, Defendants were instructed, by Court Order, to protect electronically stored information [ECF Nos. 12-15]. Defendants were also directed to turn computers within their possession over to forensic-imaging experts for examination. On April 30, 2010, mere hours before he turned over his computer for imaging, Pilling installed Eraser 6, a data-wiping software, on his computer [ECF No. 291-21]. Eraser 6 makes it impossible to determine what files have been on a computer and what the file's contents had been. [ECF No. 325-1 at 39].

## **II. SUMMARY JUDGMENT LEGAL STANDARD**

“The court shall grant summary judgment if the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ. P. 56(a). Federal Rule of Civil Procedure 56(c) provides that a party asserting that a fact cannot be or is genuinely disputed must support the assertion by citing to particular parts of materials in the record, or showing that the materials cited do not establish the absence or presence of a genuine dispute, or that an adverse party cannot produce admissible evidence to support the fact. Fed. R. Civ. P. 56(c); *Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986).

“Only disputes over facts that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). Summary judgment will not lie if a genuine dispute about a material fact is shown; “that is, if the evidence is such that a reasonable jury could return a verdict for the nonmoving party.” *Id.* In ruling on a motion for summary judgment, the Court may not make credibility determinations, weigh the evidence, or draw inferences from the facts. *Torgerson v. City of Rochester*, 643 F.3d 1031, 1042 (8th Cir. 2011).

To satisfy his initial responsibility, the movant must inform the court of the basis for his motion and must identify those portions of the record that he believes demonstrate the absence of a genuine issue of material fact. *Id.* at 1042. Once the moving party has discharged the requisite evidentiary burden, the nonmovant must respond by submitting evidentiary materials that set out “specific facts showing that there is a genuine issue for trial.” *Id.* (citations omitted). If the nonmovant fails to produce such evidence, summary judgment in favor of the moving party is proper. *Olson v. Pennzoil Co.*, 943 F.2d 881, 883 (8th Cir. 1991).

### **III. DISCUSSION**

#### **1. Count I: Copyright Infringement**

In Count I of its SAC, CHE alleges that it owns valid and enforceable copyrights of the E-LEM (Enhance Library Event Manager), E-PET (Enhanced Peripheral Exercise Tool) and ERDS (Error Reporting Data System) software programs, and that these programs are creative works of original authorship by CHE [ECF No. 147 at 18-21]. CHE further alleges that Defendants violated its exclusive rights by retaining the source code to these software programs, misappropriating and utilizing the material for TriPoint’s benefit; by copying, creating derivative works, and utilizing CHE’s software and source codes to offer identical services to Defendants’

customers, in violation of 17 U.S.C. § 106; and by controlling, directing, inducing or materially contributing to the copying, distribution, public display or creation of derivative works from CHE's copyrighted materials.

To prevail on a claim of copyright infringement, CHE must show: 1) show ownership of the allegedly infringed material; and 2) must demonstrate that the alleged infringers copied the original elements of its work. *Taylor Corp. v. Four Seasons Greetings, LLC*, 403 F.3d 958, 962-63 (8th Cir. 2005). In the absence of direct evidence of copying, the copyright owner may establish this element by proving 1) the alleged infringer had access to the copyrighted material; and 2) the existence of substantial similarity between the alleged infringing material and the copyrighted material. *Id.* at 964. The Eighth Circuit applies a two-step analysis to determine substantial similarity. *Id.* at 966. First, the Court extrinsically analyzes similarity of ideas, focusing on objective similarities in the details of the works. *Id.* If substantial similarity in ideas are found, the Court then intrinsically evaluates similarity of expression, a test depending on the response of the ordinary, reasonable person to the forms of expression. *Id.*

Defendants do not challenge CHE's ownership of the intellectual property [ECF No. 291 at 3, ¶¶ 14-20]. In their motion, Defendants argue that they should be granted summary judgment on CHE's copyright infringement claim because "there is no evidence CHE's rights were violated because TriPoint did not copy or create derivative works of CHE's copyrighted programs." Therefore, only the copying element of the claim is at issue.

The record, as is often the case when unauthorized duplication occurs, does not contain direct evidence of copying; however, CHE can prove copying by showing that Defendants had access to CHE's copyrighted programs and that Defendants' work is substantially similar to the protected work. *See id.* at 964; *Robert R. Jones Assoc., Inc. v. Nino Homes*, 858 F.2d 274, 276-