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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA

Richmond Division

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|-------------------------------------|---|---------------|
| Eagle Marine Corporation, |) | |
| |) | |
| Plaintiff, |) | |
| |) | |
| v. |) | CA 89-00657-R |
| |) | |
| Nissan Industrial Equipment Company |) | |
| and Triton Technologies, Inc., |) | |
| |) | |
| Defendants. |) | |

ORDER

This case is before the Court on defendant Nissan Industrial's motion pursuant to Fed. R. Civ. P. 12(b)(6) to dismiss for failure to state a claim plaintiff Eagle Marine Corporation's cause of action for violation of Virginia's business conspiracy statute, Va. Code §§ 18.2-499 and -500. For the reasons stated below, the defendant's motion is GRANTED, and this claim is DISMISSED WITH PREJUDICE as to Defendant Nissan Industrial Equipment Company.

I.

According to the allegations of the plaintiff's complaint, which must be accepted as true at this point, Eagle Marine contracted with Nissan in 1988 to provide boats for sale in retail markets throughout the country. Triton then sent a letter to Nissan offering to build any particular boats Nissan wanted. After discussions with Nissan, Triton acquired one of Eagle Marine's boats and used it to make new molds to manufacture duplicates of the Eagle Marine boat. Nissan paid the cost of having Triton's duplicate molds manufactured, and bought boats produced from these

molds. Eagle Marine filed this suit claiming breach of contract and violation of Virginia's business conspiracy statute, Va. Code § 18.2-499 and § 18.2-500.

Defendant Nissan moved to dismiss for failure to state a claim the business conspiracy claim pursuant to Fed. R. Civ. P. 12(b)(6). In support of its motion, Nissan argues that Eagle Marine has failed to allege any illegal conduct or purpose on the part of Nissan, which is essential to stating a claim under this statute. Nissan asserts that the acts and motives alleged fall within the zone of protection from state regulation provided by federal patent law. The parties agreed to submit this motion on their briefs.

II.

The Virginia business conspiracy statute states:

Any two or more persons who shall combine, associate, agree, mutually undertake or concert together for the purpose of willfully and maliciously injuring another in his reputation, trade, business or profession by any means whatever, . . . shall be jointly and severally guilty of a Class 3 misdemeanor. Such punishment shall be in addition to any civil relief recoverable under § 18.2-500.

. . . .
Any person who shall be injured in his reputation, trade, business, or profession by reason of a violation of §18.2-499, may sue therefor and recover three-fold the damages by him sustained, and the costs of suit, including a reasonable fee to plaintiff's counsel; and without limiting the generality of the term, "damages" shall include loss of profits.

Va. Code § 18.2-499 to -500.

In order to recover under this statute, a plaintiff must show a conspiracy "to accomplish some criminal or unlawful purpose, or to accomplish some purpose, not in itself criminal or unlawful, by criminal or unlawful means." Hechler Chevrolet, Inc. v. General

Motors, Inc., 230 Va. 396, 402, 337 S.E.2d 744, 748 (1985). The Fourth Circuit has interpreted this to mean that a plaintiff must point to specific facts showing that the defendant's conduct was illegal beyond the harm it caused the plaintiff. Potomac Valve & Fitting, Inc. v. Crawford Fitting Co., 829 F.2d 1280, 1284 (4th Cir. 1987). Nissan argues that Eagle Marine has not adequately alleged the type of illegal conduct or illegal purpose on its part that the statute requires. Cf. Falwell v. Penthouse Int'l, 521 F.Supp. 1204, 1209 (W.D. Va. 1981).

In Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. ___, 109 S.Ct. 971, 103 L.Ed.2d 118 (1989), the Supreme Court dealt with a case very similar to this one. In that case, a Florida statute was at issue that prohibited "the direct molding process to duplicate for the purpose of sale of any manufactured vessel . . . [of] another without the written permission of that other person." Fla. Stat. § 559.94 (1987). That law, like Virginia's business conspiracy law, provided for treble damages and attorney's fees. Id. The Supreme Court affirmed the dismissal of the plaintiff's claim under that law, concluding that the Florida statute was preempted by the federal patent law and was therefore invalid under the Supremacy Clause.¹

In reaching this result, the Court reasoned that the Patent Clause of the Constitution² and the federal patent laws strike a

¹ U.S. Const. art. VI., cl. 2.

² This clause gives Congress the power "[t]o promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8.

careful balance between the need to encourage innovation by offering some protection to novel advances, and the competing need to avoid monopolies that stifle competition. Bonito Boats, 489 U.S. at ____, 103 L.Ed.2d at 131. The Court noted that its prior decisions interpreting patent law had come to the conclusion "that ideas once placed before the public without the protection of a valid patent are subject to appropriation without significant restraint." Id. at 138. Thus, once a potentially patentable idea is exposed to the public, the federal patent laws create a right to copy that idea, even in detail. Id. at 139, 143. This interpretation preempts any attempt by the states to "offer patent-like protection to intellectual creations which would otherwise remain unprotected as a matter of federal law." Id. The only exceptions to the broad preemptive swath of federal patent law are for state laws protecting trade secrets and those prohibiting unfair competition through copying that results in consumer confusion as to the product source. Id. at 138-39.

In sum, the Court held that the reverse engineering alleged in Bonito Boats was within the preemptive scope of the federal patent laws but did not violate those laws. The factual similarity of this case to Bonito Boats is remarkable. The only real difference between the two cases is that the Virginia business conspiracy statute, unlike the Florida law at issue in Bonito Boats, is not directed exclusively at protecting design rights. This fact saves this Virginia law from facial unconstitutionality, but it does not save this plaintiff's claim. This case does not fall within an exception to patent law preemption because reverse

engineering does not constitute a trade secrets claim, see Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 476, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974), and the plaintiff has not claimed consumer confusion as to product source here. Cf. Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 232, 84 S.Ct. 784, 11 L.Ed.2d 661 (1964).

The fact that the action alleged by Nissan here may have been in breach of contract does not make it "unlawful" in the sense contemplated by Virginia's business conspiracy statute. Further, the breach of the duty of good faith, even if properly alleged by the plaintiff,³ is not an illegal act or purpose under that Virginia law. These complaints are adequately covered by, and in fact are the very focus of, Eagle Marine's contractual cause of action. Thus, the plaintiff has not alleged facts showing that Nissan's actions were illegal beyond the harm they caused Eagle Marine.

Given the holding in Bonito Boats, it is clear that the action alleged by the plaintiff was "legal" in the sense contemplated by the Virginia business conspiracy statute, and that the plaintiff has not alleged the illegal purpose and design required by this Virginia law. Therefore, the Court finds that the plaintiff has not stated a claim under the Virginia business conspiracy statute, and that Count of its Complaint is hereby DISMISSED.

³ The Court does not at this point express any opinion on the defendant's assertion that "the plaintiff has failed to plead any violation of the duty of good faith." Reply Memorandum of Defendant Nissan at 4.

It is so ORDERED.

Let the Clerk send a copy of this Order to all counsel of record.

DATE

UNITED STATES DISTRICT JUDGE