

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

TES FRANCHISING, LLC, et al., <p style="text-align: right; margin-right: 20px;">Plaintiffs,</p>	:	
	:	CIVIL ACTION
vs.	:	
	:	NO. 10-0017
J. ERIC DOMBACH, et al.,	:	
	:	
	:	
vs.	:	
	:	
TERRY POWELL, et al.,	:	
Additional Defendants.	:	

HENRY S. PERKIN
UNITED STATES MAGISTRATE JUDGE

NOVEMBER 29 , 2010

MEMORANDUM

Presently before the Court is the Motion for Leave to File a Third Amended Complaint by the Plaintiffs and the Opposition thereto by Defendants. Plaintiffs seek leave to file a revised complaint adding a claim for misappropriation of trade secrets and violation of the Pennsylvania Uniform Trade Secrets Act, against Defendants J. Eric Dombach (“Dombach”) and Business Action, Inc. (“BAI”). For the following reasons, the Motion for Leave to File a Third Amended Complaint will be granted.

I. PROCEDURAL BACKGROUND.

On January 4, 2010, Plaintiffs filed their complaint, which included a claim for misappropriation of trade secrets in violation of the Pennsylvania Uniform Trade Secrets Act (“PUTSA”). Also on January 4, 2010, Plaintiffs also filed a Motion for Preliminary Injunction based on their trade secrets claim, alleged breaches of non-disclosure and confidentiality

agreements, and Dombach's alleged breach of his duty of loyalty. On January 25, 2010, Defendants filed a motion to dismiss, contending that the PUTSA claim should be dismissed because Plaintiffs: (1) failed to assert who owned the misappropriated trade secret; and (2) failed to plead sufficient facts that the information allegedly misappropriated constituted trade secrets.

On February 8, 2010, Plaintiffs served Defendants with a Request for Documents including Defendants' "secret vault" of documents referred to on the www.mycoachescoach.com website. Plaintiffs filed an Amended Complaint on February 16, 2010 and did not include a PUTSA claim in the Amended Complaint. Similarly, Plaintiffs did not contend in their Amended Motion for Preliminary Injunction that misappropriation under PUTSA was a basis for Plaintiffs' injunction. On February 22, 2010, Plaintiffs received Defendants' responsive documents to the Request for Documents propounded on February 8, 2010, and the responses numbered over 9000 documents, including a copy of an internet security front page to download a "plug-in" to open a document entitled "The Ultimate Business Coaching Bible."

On May 18, 2010, when Plaintiffs' counsel was preparing for the third day of the preliminary injunction hearing, she requested and received a copy of "The Ultimate Business Coaching Bible" from Defendants' counsel. Upon review of "The Ultimate Business Coaching Bible," Plaintiffs found that copyrighted material and confidential and proprietary trade secrets in the form of the AdvCoach® Confidential Operations Manual had been copied into "The Ultimate Business Coaching Bible." Dombach testified on May 24, 2010 that he had incorporated the entire AdvCoach® Confidential Operations Manual into "The Ultimate Business Coaching Bible."

Following Dombach's testimony on May 24, 2010, Plaintiffs' counsel verbally

notified Defendants' counsel of her intention to amend the complaint to include a claim for Dombach's misappropriation. On May 28, 2010, Plaintiffs' counsel contacted Defendants' counsel seeking consent to amend the Amended Complaint to add claims for misappropriation of trade secrets under the PUTSA and copyright infringement. Defendants denied consent on June 2, 2010. Plaintiffs filed a motion for leave to file a Second Amended Complaint on June 2, 2010, seeking injunctive relief including a preliminary and permanent injunction on Plaintiffs' trade secrets claim. Defendants filed a memorandum of law in opposition on June 21, 2010, arguing that both of Plaintiffs' proposed claims were futile and Defendants would be unduly prejudiced by permitting Plaintiffs to file their Second Amended Complaint. Following review of Defendants' opposition, Plaintiffs' counsel realized that she erred in inclusion of a copyright infringement claim in the Second Amended Complaint, and filed a Notice of Withdrawal of the Motion to File the Second Amended Complaint on June 28, 2010. Also on June 28, 2010, Plaintiffs' counsel filed the instant Motion seeking leave of Court to file a Third Amended Complaint including a claim for misappropriation of trade secrets and violation of the PUTSA. Defendants oppose this Amendment because they contend that the proposed new trade secrets claim is futile and they will be unduly prejudiced if Plaintiffs are granted leave to file their Third Amended Complaint.

II. STANDARD OF REVIEW.

“[A] party may amend its pleading only with the opposing party's written consent or the court's leave. The court should freely give leave when justice so requires.” Fed. R. Civ. P. 15(a)(2). “Amendments, although liberally granted, rest within the sound discretion of the trial court under Fed. R. Civ. P. 15.” Kolar v. Preferred Real Estate Investments, Inc., 361 Fed.

Appx. 354, 367 (3d Cir. 2010)(quoting Massarsky v. Gen. Motors. Corp., 706 F.2d 111, 125 (3d Cir.1983)). Courts “have shown a strong liberality . . . in allowing amendments under Rule 15(a).” ScanSource, Inc. v. Datavision-Prologix, Inc., CIV.A. No. 04-4271, 2009 WL 973497, *1 (E.D. Pa. Apr. 8, 2009)(quoting Bechtel v. Robinson, 886 F.2d 644, 652 (3d Cir. 1989) (citing Heyl & Patterson Int’l, Inc. v. F.D. Rich Housing, 663 F.2d 419, 425 (3d Cir. 1981), cert. denied, 455 U.S. 1018, 102 S. Ct. 1714, 72 L. Ed.2d 136 (1982))). However, “the policy favoring liberal amendment of pleadings is not . . . unbounded.” Id. (quoting Dole v. Arco Chem. Co., 921 F.2d 484, 486-87 (3d Cir. 1990)). In applying Rule 15(a), the Third Circuit has held that “[a] district court may deny leave to amend a complaint if a plaintiff’s delay in seeking amendment is undue, motivated by bad faith, or prejudicial to the opposing party.” Id. (quoting Cureton v. Nat’l Collegiate Athletic Ass’n, 252 F.3d 267, 272-73 (3d Cir. 2001)(citing Foman v. Davis, 371 U.S. 178, 182, 83 S. Ct. 227, 9 L. Ed.2d 222 (1962))).

The Third Circuit has further instructed that “prejudice to the non-moving party is the touchstone for the denial of the amendment.” Id. at *2(quoting Bechtel, 886 F.2d at 652 (citing Cornell & Co. v. Occupational Safety and Health Rev. Comm’n, 573 F.2d 820, 823 (3d Cir. 1978))). “A mere claim of prejudice is not sufficient; there must be some showing that [the non-moving party] was unfairly disadvantaged or deprived of the opportunity to present facts or evidence which it would have offered had the amendments been timely.” Id. (quoting Dole, 921 F.2d at 488 (internal citations omitted)).

III. DISCUSSION.

Plaintiffs contend that justice requires granting leave to file a Third Amended Complaint because failure to grant leave to amend to include a claim for the misappropriation of

confidential and proprietary trade secrets will result in Defendants' continuing misuse of the Franchisor Plaintiffs' property and Plaintiffs' confidential trade secrets and Dombach's continued publication of the AdvCoach® Confidential Operations Manual.

Plaintiffs also argue that failure to grant leave would require that Plaintiffs file a second lawsuit against Dombach to prevent the continued misappropriation of copyrighted property and confidential trade secrets, thereby unnecessarily increasing costs to the Franchisor Plaintiffs to simultaneously prosecute two matters.

Defendants contend, in response, that Plaintiffs' assertion that they did not learn of Defendants' alleged misappropriation of trade secrets until May 18, 2010 is belied by Plaintiffs' misappropriation claim in their January, 2010 complaint and Defendants' February 22, 2010 production of the document on which Plaintiffs' new trade secrets claim is purportedly based. Defendants also argue that Plaintiffs' misappropriation of trade secrets claim cannot withstand a motion to dismiss because Plaintiffs fail to plead sufficient facts to adequately identify the alleged trade secrets or establish a plausible claim that the allegedly misappropriated information constitutes trade secrets. Thus, Defendants contend that Plaintiffs' Third Amended Complaint would be futile and this Court should deny the requested leave to file the Complaint.

A trade secret is defined under the PUTSA as:

“Trade secret.” Information, including a formula, drawing, pattern, compilation including a customer list, 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.
- (2) Is the subject of efforts that are reasonable under the

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