

IN THE UNITED STATES DISTRICT COURT  
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA  
CASE NO. 1:08-CV-928

STATIC CONTROL COMPONENTS, INC.,	:	
	:	
Plaintiff,	:	
	:	
v.	:	MEMORANDUM OF LAW IN SUPPORT OF DEFENDANT’S MOTION FOR SUMMARY JUDGMENT
	:	
SUMMIX, INC.,	:	
	:	
Defendant.	:	

Pursuant to Federal Rule of Civil Procedure 56, and LR 7.2 and 56.1, Defendant Summix, Inc. (“Summix”), by and through undersigned counsel, hereby submits this Memorandum of Law in support of its Motion for Summary Judgment on the claims of Plaintiff Static Control Components, Inc. (“Static Control”).

I. INTRODUCTION

For 15 years, Static Control, a distributor of refurbished laser toner cartridges, and Summix, a Japanese supplier of toner cartridge components (*i.e.*, Primary Charging Rollers (“PCR”s) and Developer Rollers)<sup>1</sup> carried on a business relationship without any significant issues. In 2006, Static Control began development of its own PCRs. While Static Control developed its own PCRs, it continued to purchase PCRs from Summix. Just weeks before Static Control began selling its own PCRs (in November of 2008), on the eve of a delivery, Static Control cancelled an order from Summix and refused to pay for a shipment already in its possession (claiming a “problem” without identification of any specific technical defect).

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<sup>1</sup> PCRs and Developer Rollers assist in the transfer of ink to the imaging drum in laser printers via electrostatic charges.

When Summix demanded payment and threatened to sue Static Control, Static Control brought a “preemptive” lawsuit claiming that the PCRs delivered by Summix were defective, even though Static Control *continued to sell PCRs delivered by Summix*. When Summix answered that the PCRs were not defective and counterclaimed for nonpayment for the PCRs, Static Control amended its Complaint to include: (1) a breach of contract claim for Developer Rollers that were not rejected by Static Control for quality issues; and (2) a claim for misappropriation of trade secrets, based “upon information and belief” that a former employee (Mr. Harry Morikawa (“Morikawa”)) who served as an interpreter between Static Control and Summix was subsequently hired by Summix and introduced Summix to a competitor.

Almost *three* years later, Static Control has admitted that it has no evidence that it suffered any damages from Summix’s alleged breach of contract or that Summix misappropriated any trade secrets.<sup>2</sup> In the face of Static Control’s admissions, judgment in favor of Summix on each of Static Control’s claims is warranted.

## II. RELEVANT PROCEDURAL HISTORY

On December 23, 2008, Static Control filed a Complaint against Summix asserting a single claim of breach of warranty of merchantability arising out of allegations that Summix delivered PCRs to Static Control in the fall of 2008 which were defective. [DE-1]. On May 19, 2009, Summix timely filed an answer, denying Static Control’s allegations, and asserting a counterclaim for non-payment for the PCRs delivered and/or ordered. [DE-13]. On May 26, 2011, Static Control amended its Complaint to include allegations and claims relating to the delivery of purportedly defective Developer Rollers and misappropriation of trade secrets. [DE-

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<sup>2</sup> Like the complaint filed by Static Control in *Static Control Components, Inc. v. Vogler*, 152 N.C. App. 599, 568 S.E.2d 305 (2002), the complaint in this case was “not well grounded in fact” and filed for an improper purpose (e.g., preempting a claim by Summix in Japan for money owed). Summix reserves the right to seek sanctions under Federal Rule of Civil Procedure 11 and N.C. Gen. Stat. § 66-154(d).

51]. On June 8, 2011, Summix timely filed an answer, denying Static Control's allegations and again asserting a counterclaim arising out of non-payment for the PCRs delivered and/or ordered.

[DE-52]. On June 29, 2011, Static Control timely filed an answer to Summix's counterclaims.

[DE-56].

The parties have each served, and responded to, written discovery. On October 31, 2011 and November 1, 2011, the parties' depositions were taken pursuant to Federal Rule of Civil Procedure 30(b)(6). Pursuant to the Amended Scheduling Order, the deadline for discovery and filing dispositive motions is November 21, 2011. [DE-61].

### III. STATEMENT OF RELEVANT FACTS

#### A. The Parties

Static Control distributes after-market<sup>3</sup> components and toner for remanufactured laser toner cartridges. Static Control Components, Inc. v. Darkprint Imaging, Inc., 200 F. Supp. 2d 541, 542 (M.D.N.C. 2002); Transcript of Deposition Testimony of Erwin Pijpers as 30(b)(6) designee for Static Control taken November 1, 2011 ("Pijpers Dep."), pp. 16-17, attached hereto as Exhibit "1;"<sup>4</sup> Transcript of Deposition Testimony of Roderick Boone as 30(b)(6) designee for Static Control taken November 1, 2011 ("Boone Dep."), p. 17, attached hereto as Exhibit "2." Summix makes certain components for laser toner cartridges, including PCRs and Developer Rollers. See Transcript of Deposition Testimony of Yoichi Matsumura as 30(b)(6) designee for Summix taken October 31, 2011 ("Summix Dep."), p. 7, attached hereto as Exhibit "3."

The parties began doing business with each other in or about 1997. See Declaration of Yoichi Matsumura ("Matsumura Dec."), ¶ 3, attached hereto as Exhibit "4." Static Control

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<sup>3</sup> "Aftermarket" components are refurbished, in contrast with new toner products developed by original equipment manufacturers. Static Control Components, Inc. v. Darkprint Imaging, Inc., 200 F. Supp. 2d 541, 542 n. 1 (M.D.N.C. 2002).

<sup>4</sup> For each deponent, copies of the pages cited herein are collectively assembled as one exhibit.

began buying PCRS from Summix in or about 2004.<sup>5</sup> See Transcript of Deposition Testimony of Holly Brunton as 30(b)(6) designee for Static Control taken November 1, 2011 (“Brunton Dep.”), p. 12, attached hereto as Exhibit “5.”

B. Static Control “Rejects” Summix’s PCRS But Continues To Sell Them To Its Customers<sup>6</sup>

In 2006, Static Control began developing its own PCRS. See Pijpers Dep., p. 26. Shortly before Static Control began selling its own PCRS in November of 2008, Static Control “rejected” PCRS that had already been delivered by Summix to Static Control and cancelled an outstanding order of PCRS the night before delivery. See Boone Dep., p. 49; Brunton Dep., pp. 17, 28; Transcript of Deposition Testimony of Aaron Maule as 30(b)(6) designee for Static Control taken November 1, 2011 (“Maule Dep.”), pp. 27, 43, attached hereto as Exhibit “6;” Matsumura Dec.”), ¶¶ 4-5. Static Control now claims that an inspection of approximately 20 out of 15,000 PCRS revealed that the PCRS were out of specification because they were 10/1000ths to 15/1000ths to wide (where the tolerance level is +/- 5/1000ths), the width of 2-3 pieces of paper.<sup>7</sup> See Maule Dep., pp. 30-31, 34, 49-50. However, Static Control did not call Summix to discuss these purported nonconformities, did not take photographs and does not have any samples of the purportedly defective PCRS. See Maule, pp. 29-30. Instead, Static Control completed a “Material Return Notice.”<sup>8</sup> See Brunton Dep., p. 24. *Notwithstanding its claim that the PCRS were defective, Static Control continued to sell Summix PCRS through May of 2011.* See Brunton Dep., p. 16.

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<sup>5</sup> Summix believes that Static Control began buying PCRS from it in or about 2002; however, for purposes of this Motion, Summix accepts as true Static Control’s assertion that it did so beginning in or about 2004.

<sup>6</sup> While Static Control brought a breach of contract claim for the delivery of allegedly defective Developer Rollers (only *after* Summix counterclaimed for nonpayment of PCRS delivered/ordered), it is undisputed that Static Control’s quality control did *not* reject the Developer Rollers delivered to Static Control. See Maule Dep., p. 38.

<sup>7</sup> Notably, prior to this time, Static Control had received only 2 or 3 customer complaints about Summix’s PCRS. See Maule Dep., pp. 25-26.

<sup>8</sup> Although a Material Return Notice was completed, Static Control did not return the allegedly defective PCRS to Summix. See Matsumura Dec., ¶ 6.

C. Morikawa's Relationship With The Parties

In January of 2001, Static Control hired Harry Morikawa as a sales representative. See Pijpers Dep., pp. 12-13; Boone Dep., p. 36. Morikawa was hired to “promote the sales of Static [Control’s] products in . . . Asian markets . . . as well as to be a communicator to deal on vendor relationships . . . .” See Pijpers Dep., p. 19. Morikawa was paid a base salary plus incentive payments based upon sales in Japan and Korea. Id. at p. 15. Morikawa’s salary was not dependent upon procurement of products from Static Control’s vendors, such as Summix. Id. at p. 21.

During the parties’ relationship, Morikawa served as an interpreter between Static Control and Summix. See Pijpers Dep., p. 20. After 7 years of employment, Static Control fired Morikawa (in June of 2008) for “introducing Summix to one of [Static Control’s] competitors”<sup>9</sup> and “taking some of [Static Control’s] competitors to some of [“Static Control’s] customers in Japan.” Id. at pp. 13-14.

Approximately *one* year after Morikawa was fired by Static Control, Summix entered into a consulting agreement with Morikawa to provide interpreter services between Summix and its foreign customers. See Summix Dep., pp. 53-54. Static Control claims that, around this same time (in June of 2009), Morikawa introduced Summix to World Imaging Network, Static Control’s distributor in Brazil. See Pijpers Dep., pp. 43-46.

III. STANDARD OF REVIEW

Summary judgment is appropriate when there exists no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. Pro. 56(c); Zahodnick v. International Bus. Mach. Corp., 135 F.3d 911, 913 (4<sup>th</sup> Cir. 1997). The party seeking summary judgment bears the burden of initially coming forward and demonstrating the absence

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<sup>9</sup> Static Control identified this competitor as Mr. Atsumi. See Pijpers Dep., p. 52.

of a genuine issue of material fact. Celotex Corp. v. Catrett, 477 U.S. 317, 323, 106 S. Ct. 2548 (1986). Once the moving party has met its burden, the non-moving party must then affirmatively demonstrate that there is a genuine issue of material fact which requires trial. Matsushita Elec. Indus. Co. Ltd. v. Zenith Radio Corp., 475 U.S. 574, 587, 106 S. Ct. 1348 (1986). There is no issue for trial unless there is sufficient evidence favoring the non-moving party for a fact-finder to return a verdict for that party. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 250, 106 S. Ct. 2505 (1986). Thus, the moving party can bear its burden either by presenting affirmative evidence or by demonstrating that the non-moving party's evidence is insufficient to establish its claim. Celotex, 477 U.S. at 331.

#### IV. LEGAL ARGUMENT

##### A. There Is No Genuine Issue For Trial On Static Control's Claim Under The NCTSPA

Under the North Carolina Trade Secrets Protection Act (the "NCTSPA"):

- (1) "Misappropriation" means acquisition, disclosure, or use of a trade secret of another without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret.

N.C. Gen. Stat. § 66-152. As an initial matter, to support a claim for misappropriation, Static Control must identify the trade secret purportedly misappropriated with sufficient particularity to enable Summix to have notice of what it is accused of misappropriating and for this Court to determine whether misappropriation has occurred. Visionair, Inc. v. James, 167 N.C. App. 504, 606 S.E.2d 359 (2004). While Static Control alleged in its Amended Complaint that, during his employment with Summix, "Morikawa revealed Static Control's trade secret regarding its customers and their pricing. . ." [DE-51, ¶ 25] and "[t]his use of the [customer and pricing] information by [ ] Morikawa, on behalf of Summix, was without" Static Control's consent [DE-

51, ¶ 30], in the almost three years that this litigation has been pending, Static Control has not identified with particularity what customer or pricing information was purportedly disclosed. Identification of a category alone is not sufficient to withstand summary judgment. Static Control Components, Inc. v. Darkprint Imaging, Inc., 200 F. Supp. 2d 541, 545 (M.D.N.C. 2002) (citing Bank Travel Bank v. McCoy, 802 F. Supp. 1358, 1360 (E.D.N.C. 1992)). Moreover, Static Control cannot survive summary judgment “if it offers only mere speculation of misappropriation instead of evidence supported by facts.”<sup>10</sup> Id. (citations omitted).

The only “evidence” offered by Static Control in support of this claim is that Morikawa introduced Summix to one of Static Control’s competitors during his employment with Static Control and introduced Summix to one of Static Control’s distributors in Brazil one year after Morikawa was terminated. See Pijpers Dep., pp. 13-14, 43-46. While such an introduction by Morikawa may arguably have violated a non-competition agreement with Static Control,<sup>11</sup> it is not tantamount to misappropriation of trade secrets by Summix.<sup>12</sup> Indeed, Static Control has admitted that it does not know of anything that Summix has done wrong in connection with these introductions. Id. at pp. 39-40, 46, 49. In fact, Summix did not receive any information regarding Static Control’s customers or how Static Control prices the products sold to its customers. See Matsumura Dec., ¶ 9.

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<sup>10</sup> In contrast to Static Control’s claim of misappropriation against Darkprint (where Static Control produced evidence that Darkprint hired five employees with confidential information away from Static Control, after a conversation between Darkprint and one of these employees about obtaining “Static Control” toners, and began distributing thirteen toners within an unusually short time period), Static Control has offered no evidence, circumstantial or otherwise, that Summix misappropriated any pricing information.

<sup>11</sup> Interestingly, Static Control has not sued Morikawa. See Pijpers Dep., p. 49.

<sup>12</sup> Customer names and addresses may not be protected as a “trade secret” inasmuch as they can be readily ascertained through independent development. See, e.g., Asheboro Paper and Packaging, Inc. v. Dickinson, 599 F. Supp. 2d 664, 676 (2009) (citing UBS PaineWebber, Inc. v. Aiken, 197 F. Supp. 2d 436 (W.D.N.C. 2002); Southtech Orth., Inc. v. Dingus, 428 F. Supp. 2d. 410, 419 (E.D.N.C. 2006) (citing Novacare Orthotics & Prosthetics East, Inc. v. Speelman, 137 N.C. App. 471, 528 S.E.2d 918, 922 (2000)). Further, customer information maintained in the memory of a departing employee is not a trade secret. See, e.g., Asheboro Paper, 599 F. Supp. 2d at 677 (citation omitted).

Because there is no evidence that Summix misappropriated any pricing information from Static Control, Summix is entitled to judgment in its favor on Static Control's claim for misappropriation of trade secrets under the NCTSPA.<sup>13</sup>

B. There Is No Genuine Issue For Trial On Static Control's Contract Claims

Under North Carolina law, the elements of breach of contract are: (1) the existence of a valid contract and; (2) breach of the terms of that contract. Poor v. Hill, 138 N.C. App. 19, 530 S.E.2d 838, 843 (2000). A breach of contract is only actionable if a *material* breach occurs – one that “substantially defeat[s] the purpose of the agreement,” goes to “the very heart of the agreement” or can be “characterized as a substantial failure to perform.” Fletcher v. Fletcher, 123 N.C. App. 744, 752, 474 S.E.2d 802, 807-08 (1996).

Here, Static Control claims that defects in the PCRs and Developer Rollers made them “not merchantable,” which constitutes a breach of contract and that Static Control has suffered damages due to “lost sales and profits.”<sup>14</sup> [DE-51, ¶¶ 13, 15, 19, 21]. However, Static Control did not reject Developer Rollers due to quality control issues and Static Control was able to re-sell the PCRs delivered by Summix despite its claim that the PCRs were “defective.” See Maule Dep., p. 38; Brunton Dep., p. 16. As such, any alleged breach by Summix of the contract (*i.e.*, an alleged variation from specification in the surface of the PCRs of 5/1000ths to 10/1000ths) did not “substantially defeat the purpose of the agreement” and was not a

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<sup>13</sup> Static Control's failure to produce any evidence that it has suffered any economic loss, or that Summix has been unjustly enriched, as a result of any alleged misappropriation is an independent basis for judgment in favor of Summix on this claim. N.C. Gen. Stat. § 66-154(b).

<sup>14</sup> While it is quite telling that, after three years of litigation, Static Control is unable to identify any customer, or even sale, lost as a result of the delivery by Summix of allegedly defective products and does not have any calculation of damages it has allegedly suffered (See Brunton Dep., pp. 29-30, 42; Pijpers Dep., pp. 31-32, 53-54), Summix does not move for summary judgment on the failure to produce sufficient evidence as to damages in recognition of case law holding that “a failure to prove damages is not grounds for a judgment as a matter of law on a breach of contract claim because proof of the other elements of such a claim entitles a plaintiff to at least nominal damages.” Pharmanetics, Inc. v. Aventis Pharm., Inc., No. 5:03-CV-817-FL(2), 2005 WL 6000369, \* 17(E.D.N.C. May 4, 2005) (citation omitted), attached hereto as Exhibit “7.”



“substantial failure to perform.” Fletcher, 123 N.C. App. at 752, 474 at 807-08. Accordingly, any alleged breach by Summix is not actionable and Summix is entitled to judgment as a matter of law in its favor on Static Control’s breach of contract claims.<sup>15</sup>

V. CONCLUSION

For the foregoing reasons, Summix, Inc. respectfully requests that this Court enter judgment in its favor and against Static Control Components, Inc. on each of its claims.

Dated: November 18, 2011

DAUGHTRY, WOODARD, LAWRENCE &  
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**CERTIFICATE OF SERVICE**

I, Luther D. Starling, Jr., certify that on this 18<sup>th</sup> day of November, 2011, I served the foregoing Memorandum of Law in Support of Defendant’s Motion for Summary Judgment upon opposing counsel in this matter, William L. London, III, Esquire, via the CM/ECF filing system.

/s/ Luther D. Starling, Jr.,  
Luther D. Starling, Jr.

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<sup>15</sup> By contrast, in the absence of a material breach by Summix, it was a material breach of contract for Static Control to fail to pay the amount owing under the contract for these PCRs and, consequently, judgment should be entered in favor of Summix on its counterclaim for breach of contract as to liability. See, e.g., Team Gordon, Inc. v. Fruit of the Loom, Inc., No. 3:06-cv-201-RJC, 2009 WL 426555, \*6 (W.D.N.C. Feb. 19, 2009), attached hereto as Exhibit “8.”