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United States District Court  
For the Northern District of California

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

|                                   |   |                          |
|-----------------------------------|---|--------------------------|
| OPTIMAL MARKETS, INC.,            | ) | Case No. 08-5765 SC      |
|                                   | ) |                          |
| Plaintiff,                        | ) | ORDER RE: MOTION FOR     |
|                                   | ) | VOLUNTARY DISMISSAL      |
| v.                                | ) | <u>WITHOUT PREJUDICE</u> |
|                                   | ) |                          |
| FTI CONSULTING, INC., AUCTION     | ) |                          |
| TECHNOLOGIES, LLC, AUCTION        | ) |                          |
| TECHNOLOGIES, INC., XONOMIC INC., | ) |                          |
| DAVID SALANT, HAROLD LEA, PAUL    | ) |                          |
| MILGROM, and DOES 1-10,           | ) |                          |
|                                   | ) |                          |
| Defendants.                       | ) |                          |
| _____                             | ) |                          |
|                                   | ) |                          |
| DAVID SALANT, HAROLD LEA, PAUL    | ) |                          |
| MILGROM, AUCTION TECHNOLOGIES,    | ) |                          |
| LLC, and AUCTION TECHNOLOGIES,    | ) |                          |
| INC.,                             | ) |                          |
|                                   | ) |                          |
| Counterclaimants,                 | ) |                          |
|                                   | ) |                          |
| v.                                | ) |                          |
|                                   | ) |                          |
| OPTIMAL MARKETS, INC.,            | ) |                          |
|                                   | ) |                          |
| Counterdefendant.                 | ) |                          |
| _____                             | ) |                          |

**I. INTRODUCTION**

This matter comes before the Court on the Motion for Voluntary Dismissal Without Prejudice ("Motion") filed by Plaintiff and Counterdefendant Optimal Markets, Inc. ("Plaintiff" or "OM"). Docket No. 44. Defendants FTI Consulting, Inc. ("FTI"), Auction Technologies, LLC ("ATL"), Auction Technologies,

1 Inc., Xonomic Inc., Dr. David Salant ("Salant"), Harold Lea  
2 ("Lea"), and Dr. Paul Milgrom ("Milgrom") (collectively,  
3 "Defendants") filed an Opposition. Docket No. 49. OM submitted a  
4 Reply. Docket No. 52. For the reasons stated herein, the Court  
5 dismisses Plaintiff's causes of action without prejudice.

6  
7 **II. BACKGROUND**

8 On December 29, 2008, Plaintiff commenced this action.  
9 Docket No. 1 ("Compl."). On January 15, 2009, Plaintiff filed an  
10 Amended Complaint. Docket No. 11 ("Am. Compl."). OM, a company  
11 founded by Dr. David Moshal ("Moshal"), provides software and  
12 services related to electronic auctions. Id. ¶ 1. Salant and Lea  
13 are former officers of OM. Id. ¶¶ 2-3. According to the Amended  
14 Complaint, Salant and Lea have formed, or are employed by, Auction  
15 Technologies, Inc., Auction Technologies, LLC, and Xonomic, Inc.  
16 Id. ¶ 4. OM accuses Salant and Lea of misappropriating OM's  
17 proprietary information, and OM accuses Salant and Milgrom of  
18 secretly filing a patent application claiming ownership of OM's  
19 inventions. Id. ¶¶ 3-4. The Amended Complaint consists of causes  
20 of action for (1) copyright infringement; (2) breach of contract;  
21 (3) misappropriation of trade secrets; (4) common law unfair  
22 competition; (5) statutory unfair competition; (6) interference  
23 with contract; (7) interference with prospective economic  
24 advantage; (8) breach of the covenant of good faith and fair  
25 dealing; and (9) declaratory relief. Id. ¶¶ 86-143.

26 On February 13, 2009, Defendants answered the Amended  
27 Complaint and filed counterclaims. Docket No. 25 ("Answer and  
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1 Counterclaims"). Salant and Lea counterclaimed for tortious  
2 interference with prospective economic advantage. Id. ¶¶ 175-185.  
3 Salant and Lea counterclaimed for tortious interference with  
4 contract. Id. ¶¶ 186-195. The counterclaimants seek a  
5 declaratory judgment that the accused goods and services do not  
6 infringe upon copyrighted material or misappropriate trade secrets  
7 owned by OM, and Salant seeks a declaratory judgment on  
8 enforceability of contract. Id. ¶¶ 196-205. On April 6, 2009,  
9 Plaintiff answered the counterclaims. Docket No. 37 ("Pl.'s  
10 Answer to Counterclaims").

11  
12 **III. LEGAL STANDARD**

13 Federal Rule of Civil Procedure 41(a)(2) provides that:

14 an action may be dismissed at the plaintiff's  
15 request only by court order, on terms that the  
16 court considers proper. If a defendant has  
17 pleaded a counterclaim before being served  
18 with the plaintiff's motion to dismiss, the  
action may be dismissed over the defendant's  
objection only if the counterclaim can remain  
pending for independent adjudication.

19 Fed. R. Civ. P. 41(a)(2). The Court must determine (1) whether to  
20 allow dismissal; (2) whether the dismissal should be with or  
21 without prejudice; and (3) what terms and conditions, if any,  
22 should be imposed. Williams v. Peralta Community College Dist.,  
23 227 F.R.D. 538, 539 (N.D. Cal. 2005).

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25 **IV. DISCUSSION**

26 **A. Whether to Allow Dismissal**

27 A district court should grant a motion for voluntary  
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1 dismissal unless a defendant can show that it will suffer some  
2 plain legal prejudice as a result. Smith v. Lenches, 263 F.3d  
3 972, 975 (9th Cir. 2001). Legal prejudice is "prejudice to some  
4 legal interest, some legal claim, some legal argument." Westlands  
5 Water Dist. v. United States, 100 F.3d 94, 97 (9th Cir. 1996).  
6 Uncertainty because a dispute remains unresolved or because the  
7 threat of future litigation causes uncertainty does not result in  
8 plain legal prejudice. Smith, 263 F.3d at 976.

9 Here, OM recently decided to dismiss its copyright claim  
10 against Defendants. Docket No. 45 ("Mem. of P. & A.") at 1. OM  
11 contends that dismissal of the copyright claim will result in a  
12 lack of subject matter jurisdiction because OM's remaining claims  
13 arise under state law and there is no diversity between the  
14 parties. Id. OM therefore moves to dismiss all of its claims  
15 with the intent of refileing the state law claims in California  
16 state court. Id.

17 Defendants accuse Plaintiff of "vexatious tactics" by moving  
18 to dismiss. Opp'n at 10. Defendants contend that OM excessively  
19 delayed in seeking dismissal, that Defendants will have to "start  
20 from scratch" in state court, and that the "substantial expense"  
21 of preparing the Answer to Plaintiff's Amended Complaint would  
22 have been avoided in state court, which allows a single-paragraph  
23 general denial. Id. at 10-11.

24 The Court finds that Defendants have not shown they will  
25 suffer legal prejudice as a result of dismissal of Plaintiff's  
26 claims. This case was commenced less than six months ago, no  
27 other motions have been filed, and no party has provided documents

1 in response to discovery requests, or taken any depositions. Mem.  
2 of P. & A. at 3-4. Therefore, Plaintiff has not excessively  
3 delayed in moving for dismissal. See Westlands, 100 F.3d at 97  
4 (finding no legal prejudice where plaintiffs moved for dismissal  
5 four months after commencing action). Legal prejudice does not  
6 result where a plaintiff would merely gain a tactical advantage by  
7 the dismissal. Smith, 263 F.3d at 976; Hamilton v. Firestone Tire  
8 & Rubber Co., Inc., 679 F.2d 143, 145 (9th Cir. 1982). Since  
9 Plaintiff intends to refile the same state law causes of action in  
10 state court, Defendants will not have to start from scratch in  
11 state court. Facing the prospect of a second lawsuit does not  
12 count as legal prejudice. See Hamilton, 679 F.2d at 145. Nor  
13 does the expense of preparing and filing its Answer count as legal  
14 prejudice. See id. at 146; see also In re Lowenschuss, 67 F.3d  
15 1394, 1400-01 (9th Cir. 1995) (inconvenience of expending time and  
16 resources in preparing for trial did not constitute legal  
17 prejudice). Defendants have not shown legal prejudice, and  
18 therefore the Court will allow dismissal.

19 **B. Whether the Dismissal Should Be With or Without**  
20 **Prejudice**

21 OM initially moved for its claims to be dismissed without  
22 prejudice. Mem. of P. & A. at 1. Defendants correctly point out  
23 that if OM's copyright claim is dismissed without prejudice, the  
24 Court would still have jurisdiction because Defendants' third  
25 counterclaim seeks a judicial determination that the accused goods  
26 and services do not infringe OM's copyrights. Opp'n at 6; see  
27 Capitol Records, Inc. v Foster, No. 04-1569, 2006 U.S. Dist. LEXIS

1 96349, at \*5-6 (D. Okla. July 13, 2006) (finding independent  
2 jurisdictional bases for defendant's counterclaim seeking  
3 declaratory judgment of non-infringement). In response, Plaintiff  
4 states a willingness to dismiss the copyright claim with prejudice  
5 subject to the condition that it is not considered an adjudication  
6 on the merits. Reply at 7-8. Alternatively, Plaintiff suggests  
7 the Court should dismiss the copyright claim without prejudice and  
8 Plaintiff covenants not to sue on the copyright claim. Id.

9 A dismissal with prejudice is tantamount to a judgment on the  
10 merits. Zenith Ins. Co. v. Breslaw, 108 F.3d 205, 207 (9th Cir.  
11 1997) (abrogated on other grounds by Ass'n of Mexican-Am.  
12 Educators v. State of Cal., 231 F.3d 572, 592 (9th Cir. 2000)).  
13 Therefore, the Court will not dismiss Plaintiff's copyright claim  
14 with prejudice. With regard to Plaintiff's second suggestion,  
15 even if Plaintiff's covenant not to sue on the copyright claim  
16 eliminates the copyright controversy between the parties, the  
17 Court still has jurisdiction over Defendants' counterclaims  
18 because they are compulsory counterclaims.

19 The Ninth Circuit determined that "[w]here there is federal  
20 jurisdiction over plaintiff's claim the court may retain and  
21 adjudicate a compulsory counterclaim . . . of which it would not  
22 otherwise have had jurisdiction notwithstanding that plaintiff  
23 voluntarily dismissed the complaint." Hamilton, 679 F.2d at 146  
24 n.3. A compulsory counterclaim is one that "arises out of the  
25 transaction or occurrence that is the subject matter of the  
26 opposing party's claim." Fed. R. Civ. P. 13(a). The Ninth  
27 Circuit applies a logical relationship test to determine if a  
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1 counterclaim is compulsory. Pochiro v. Prudential Ins. Co. of  
2 Am., 827 F.2d 1246, 1248 (9th Cir. 1987). "A logical relationship  
3 exists when the counterclaim arises from the same aggregate set of  
4 operative facts as the initial claim, in that the same operative  
5 facts serve as the basis of both claims . . . ." In re Pegasus  
6 Gold Corp., 395 F.3d 1189, 1196 (9th Cir. 2005) (internal citation  
7 omitted).

8 Here, the Court finds that Defendants' state law  
9 counterclaims are compulsory counterclaims because they arise from  
10 the same aggregate set of operative facts as Plaintiff's claims.  
11 Salant and Lea's counterclaims for tortious interference with  
12 prospective economic advantage and tortious interference with  
13 contract arise from allegations that Moshal and OM made false and  
14 defamatory statements about Salant and Lea, including false  
15 allegations of misappropriation of OM's proprietary information.  
16 See Answer and Counterclaims ¶¶ 181-82, 191-92. OM's claims for  
17 breach of contract, misappropriation of trade secrets, and  
18 interference with prospective economic advantage are based on  
19 these same alleged misappropriations. See Am. Compl. ¶¶ 98, 100-  
20 07, 128.

21 The declaratory judgment counterclaims arise from the same  
22 aggregate set of operative facts as Plaintiff's claims.  
23 Defendants and counterclaimants contend that the accused goods and  
24 services do not infringe OM's copyrights or misappropriate OM's  
25 trade secrets. See Answer and Counterclaims ¶ 198. This  
26 contention is the flipside of Plaintiff's causes of action for  
27 copyright infringement and trade secret misappropriation. See Am.

1 Compl. ¶¶ 86-94, 100-07. Salant seeks a judicial declaration that  
2 his employment agreements with OM do not restrict his right to  
3 compete in the auction software market and his right to pursue  
4 prospective business opportunities. See Answer and Counterclaims  
5 ¶ 204. This cause of action is the flipside of Plaintiff's claim  
6 against Salant for breach of contract. See Am. Compl. ¶¶ 86-94.  
7 Because the counterclaims are compulsory, they can remain pending  
8 for independent adjudication. Therefore, the Court dismisses  
9 Plaintiff's claims without prejudice, and takes no action with  
10 respect to Defendant's counterclaims.

11 **C. Terms and Conditions of Dismissal**

12 Defendants contend that a dismissal should be conditioned on  
13 an award of attorneys' fees and costs. Opp'n at 11-12. The  
14 imposition of costs and fees as a condition for dismissal is not  
15 mandatory. Westlands, 100 F.3d at 97. "[A] defendant is entitled  
16 only to recover, as a condition of dismissal under Fed. R. Civ. P.  
17 41(a)(2), attorneys fees or costs for work which is not useful in  
18 continuing litigation between the parties." Koch v. Hankins, 8  
19 F.3d 650, 652 (9th Cir. 1993). Here, Defendants' counterclaims  
20 remain pending before this Court, so the Court makes no award of  
21 attorneys' fees and costs.

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V. **CONCLUSION**

For the reasons stated above, the Court dismisses Plaintiff's causes of action without prejudice. Defendant's counterclaims remain pending before this Court.

IT IS SO ORDERED.

Dated: June 17, 2009



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UNITED STATES DISTRICT JUDGE