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**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION**

MEHRDAD NIKOONAHAD,

 Plaintiff,

 v.

RUDOLPH TECHNOLOGIES, INC. and DOES 1-
25, inclusive,

 Defendants.

Case Number C 08-2290 JF (PVT)

ORDER¹ GRANTING IN PART AND
DENYING IN PART MOTION TO
DISMISS

[Re: docket no. 45]

I. BACKGROUND

Plaintiff Mehrdad Nikoonahad (“Nikoonahad”) is an electronic engineer who holds several patents relating to semiconductor measurement and wafer inspection. Defendant Rudolph Technologies Inc. (“Rudolph”) designs and produces equipment utilized by semiconductor device manufacturers. Rudolph is incorporated under the laws of Delaware and is headquartered in New Jersey.

On September 12, 2006, Nikoonahad and Rudolph entered into an exclusive patent

¹ This disposition is not designated for publication in the official reports.

1 licensing and assignment agreement (“the Agreement”). Pursuant to the Agreement, Rudolph
2 agreed to pay Nikoonahad a fee of \$100,000 in exchange for the “right and license to develop,
3 test, manufacture, have manufactured for [Rudolph], use, sell, or offer for sale” the licensed
4 technology “for a period of eighteen months from the affective date of [the] Agreement” (“Initial
5 Development License”). Agmt. ¶ 2.1. During the designated eighteen-month period, Rudolph
6 had the option to acquire the licensed technology for a fee of \$600,000 (“First Option”). Agmt ¶
7 3.1. If Rudolph decided not to exercise the First Option by the end of the eighteen-month period,
8 the First Option and the Initial Development License would terminate. Agmt. ¶ 7.1.
9 Additionally, the Agreement required Nikoonahad to disclose to Rudolph “all of his inventions
10 that [were] reasonably related to the Licensed Subject Matter” and to file and inform Rudolph of
11 provisional patent applications for any new inventions. Agmt. ¶ 4.2.1. Nikoonahad was
12 obligated to grant Rudolph the option to add to the licensed subject matter any new inventions
13 Nikoonahad created during the term of the Agreement (“Second Option”). Agmt. ¶ 4.2.3.
14 Rudolph would then be able to purchase these inventions as part of the First Option. Agmt. ¶
15 4.2.3.

16 The Agreement contained provisions for the payment of royalties and license fees in the
17 event that the First and Second Options were exercised. Agmt. ¶¶ 5.2, 5.3. Nikoonahad agreed
18 “to perform up to Five Hundred Twenty (520) hours of consulting services” at a specified rate.
19 Agmt. ¶ 4.1.2. The Agreement also contained an integration clause, stating that the written
20 contract “contained the entire Agreement between the parties” and that all prior representations
21 and agreements “ha[d] been merged into [the] document.” Agmt. ¶ 17.1. The parties agreed that
22 if a dispute relating to the contract arose that could not be settled through negotiation, they would
23 attempt to settle the dispute through mediation before resorting to arbitration or litigation. Agmt.
24 ¶ 20.1. The Agreement was to be construed according to the laws of New Jersey. Agmt. ¶ 19.1

25 On March 12, 2008, the eighteen-month term of the Agreement expired. At that time,
26 Rudolph had not exercised either the First or Second Options or produced any royalty-bearing
27 products. On March 21, 2008, Nikoonahad filed suit against Rudolph in the Santa Clara
28 Superior Court, alleging claims for breach of written contract, breach of the implied covenant of

1 good faith and fair dealing, breach of fiduciary duty, and promissory fraud. On May 2, 2008,
2 Rudolph removed the case to the this Court. On May 9, 2008, Rudolph moved to dismiss
3 pursuant to Federal Rules of Civil Procedure 12(b)(6) and 9(b). On August 27, 2008, The Court
4 granted Rudolph’s motion and dismissed all claims contained in Nikoonahad’s complaint with
5 leave to amend. On September 24, 2008, Nikoonahad filed a First Amended Complaint
6 (“FAC”), and on October 13, 2008, Rudolph again moved to dismiss. On January 21, 2009, the
7 Court granted Rudolph’s motion and dismissed all claims contained in the FAC with leave to
8 amend. On February 6, 2009, Nikoonahad filed the operative Second Amended Complaint
9 (“SAC”). On March 3, 2009, Rudolph filed the instant motion to dismiss.

10 II. MOTION TO DISMISS

11 A rule 12(b)(6) motion to dismiss should be granted if the plaintiff fails to proffer
12 “enough facts to state a claim to relief that is plausible on its face.” *Bell Atl. Corp. v. Twombly*,
13 127 S. Ct. 1955, 1974 (2007). Allegations of material fact must be taken as true and construed
14 in the light most favorable to the nonmoving party, *Jenkins v. McKeithen*, 395 U.S. 411, 421
15 (1969), but the Court need not accept as true allegations that are conclusory, legal conclusions,
16 unwarranted deductions of fact, or unreasonable inferences. *See Sprewell v. Golden State*
17 *Warriors*, 266 F.3d 979, 988 (9th Cir. 2001). Thus, factual allegations must be enough to raise
18 the right to relief above the speculative level on the assumption that all of the complaint’s
19 allegations are true. *Bell Atlantic Corp.* 127 S.Ct. at 1965.

20 Under Rule 9(b), claims of fraud are held to a higher pleading standard. Fed. R. Civ. P.
21 9(b). A “party must state with particularity the circumstances constituting fraud or mistake.
22 Malice, intent, knowledge, and other conditions of a person’s mind may be alleged generally.”
23 *Id.* “A motion to dismiss a complaint or claim ‘grounded in fraud’ under Rule 9(b) for failure to
24 plead with particularity is the functional equivalent of a motion to dismiss under Rule 12(b)(6)
25 for failure to state a claim.” *Vess v. Ciga-Geigy Corp. USA*, 317 F.3d 1097, 1107 (9th Cir.
26 2003).

1 **III. DISCUSSION**

2 **A. Breach of Contract**

3 Under New Jersey law, “to establish a breach of contract claim, a plaintiff has the burden
4 to show that the parties entered into a valid contract, that the defendant failed to perform his
5 obligations under the contract, and that the plaintiff sustained damages as a result.” *Murphy v.*
6 *Implicito*, 920 A.2d 678, 689 (N.J. Super Ct. App. Div. 2007). A breach of contract claim should
7 be dismissed if a defendant’s alleged acts or omissions do not breach any obligation owed to a
8 plaintiff. *See Paul Revere Life Insurance Co. V. Fink*, No. 07-CV-1648, 2007 WL 3430511, at
9 *3 (D.N.J. Nov. 14, 2007). Nikoonahad’s SAC alleges that Rudolph breached the Agreement by
10 (1) rejecting Nikoonahad’s technology without evaluating it; (2) failing to use the eighteen-
11 months term of the development license to develop prototype, experiment and for customer
12 validation, take reasonable steps to prove out Nikoonahad’s technology for the intended purpose
13 of offering for sale products based on the licensed technology; and to engage Nikoonahad to
14 provide consulting services, (3) retaining control of Nikoonahad’s patent application after
15 effectively terminating the contract, (4) using Nikoonahad’s technologies for the development or
16 sale of Rudolph products, (5) failing to use reasonable diligence to prosecute Nikoonahad’s
17 pending patent applications and failing to prosecute Nikoonahad’s patent applications to the
18 World Intellectual Property Organization and the Taiwanese patent office, (6) using
19 Nikoonahad’s technology in Rudolph’s products without compensating him, and (7) failing to
20 engage with Nikoonahad in dispute resolution, SAC ¶¶ 40-47.

21 **1. Rejecting Nikoonahad’s Technology Without Evaluating It**

22 Nikoonahad alleges that Rudolph breached the Agreement, including but not limited to
23 section 2.1, by rejecting Nikoonahad’s technology without evaluating it. SAC ¶ 40. However,
24 Section 2.1 does not require Rudolph to evaluate the technology. Instead, as the Court noted in
25 its previous dismissal order, “[paragraph 2.1] obligates Rudolph to pay the fee of \$100,000 in
26 exchange for the ‘right’ and ‘license’ to develop” the technology. Second Dismissal Order, Dtk.
27 40, at 4. Nikoonahad points to the tasks itemized in sections 4.1.1.1, 4.1.1.2 and 4.1.1.4 of the
28 Agreement as support for his argument. Pl.’s Opp. at 4:20-22. The three sections identify tasks

1 as to which Nikoonahad agreed to provide consulting services, but they do not obligate Rudolph
2 to perform any tasks. *See* Second Dismissal Order at 4-5 (“Similarly, paragraphs 4.1.1 through
3 4.1.4 state only that Nikoonahad ‘agrees to provide up to Five Hundred Twenty (520) hours of
4 consulting services’ on certain topics for a specific rate.”).

5 **2. Failure to Develop Products and Consult with Nikoonahad**

6 The SAC alleges that paragraphs 2.1 and 4.1 of the Agreement obligated Rudolph at least
7 attempt to develop royalty-bearing products with Nikoonahad’s technology and to consult with
8 Nikoonahad for the purpose of developing these products. *See* SAC ¶¶ 41-42; Pl.’s Opp. at 5,6.
9 In its second dismissal order, the Court found that “there is no express provision on the face of
10 the contract exists that *requires* Rudolph to develop royalty-bearing products or to utilize
11 [Nikoonahad’s] consulting services for any particular topic.” Second Dismissal Order at 4-5
12 (emphasis original). Nikoonahad still has not sufficiently alleged an obligation on the part of
13 Rudolph to attempt to develop products or to utilize Nikoonahad’s consulting services.

14 **3. Retaining Control of Nikoonahad’s Patent Application**

15 The SAC alleges that “Rudolph breached the Agreement in that Rudolph retained control
16 of Nikoonahad’s patent application after effectively terminating the contract on December 5,
17 2007.” SAC ¶ 43. In its first dismissal order, the Court held that “Nikoonahad does not specify
18 what language of the Agreement gives rise to Rudolph’s alleged breach with respect to its
19 retention of intellectual property after termination of the license.” First Dismissal Order at 4:10-
20 12. Similarly, the SAC fails to specify the language of the Agreement that gives rise to
21 Rudolph’s alleged breach with respect to its retention of intellectual property after termination of
22 the license. In his opposition papers, Nikoonahad sets forth numerous facts purportedly
23 demonstrating that Rudolph retained control of his patent application, but he still does not point
24 to any language of the Agreement that supports his claim.

25 **4. Use Nikoonahad’s Technologies For the Development Or Sale of Rudolph 26 Products**

27 Nikoonahad argues that “Section 6 of the Agreement incorporates a Confidentiality
28 Agreement which provides in pertinent part ‘[r]ecipient agrees . . . (c) not to apply, use, utilize,

1 incorporate, or in any way draw upon any Confidential Information for the development or sale
2 of any products or services or creation of any intellectual property” Pl.’s Opp. at 10:6-8.
3 However, the parties also expressly agreed that the courts of New Jersey would have exclusive
4 jurisdiction over any dispute regarding the Confidentiality Agreement. Agmt. Ex. E ¶ 15(b)
5 (“Venue for any dispute arising under this [Confidentiality] Agreement shall be exclusively and
6 solely in the State of New Jersey, U.S.A.”). Accordingly, the Court lacks jurisdiction to
7 adjudicate this aspect of Nikoonahad’s claim.

8 **5. Prosecuting Nikoonahad’s Patent Applications**

9 The SAC alleges that Rudolph breached its collateral agreement to prosecute
10 Nikoonahad’s patent application. SAC ¶ 46. Nikoonahad asserts that there was an oral
11 agreement that Rudolph would take responsibility for prosecuting the patents. Pl.’s Opp. At 12.
12 Nikoonahad claims that the oral agreement was memorialized in three documents: a letter signed
13 by Rudolph’s attorney accepting responsibility for the case, SAC Exh. H; a power of attorney
14 form signed by Nikoonahad, SAC Exh. I; and an email exchange, dated November 9, 2006,
15 between Chris McLaughlin and Nokoona had regarding the patent application, Nikoonahad Decl.
16 Exh. C. However, Nikoonahad fails to specify the material terms of this alleged oral contract.

17 **6. Use of Nikoonahad’s Technology Without Compensation**

18 The SAC alleges that Rudolph breached the Agreement by using Nikoonahad’s
19 technology in Rudolph’s current products and using the technology for development of new
20 products without compensation. SAC ¶ 47. Nikoonahad argues that he has pled sufficient facts
21 to establish circumstantially that Rudolph indeed has used his technology. Pl.’s Opp. at 14: 11-
22 12. However, Nikoonahad does not specify the language in the Agreement that gives rise to his
23 claim. Moreover, he has failed to explain how a claim of using his technology without
24 compensation differs from his claim under Section 6 of the Agreement.² Nikoonahad’s claim

25
26 ²Paragraph 47 of the SAC, which is the operative language for the claim of using
27 Nikoonahad’s technology without compensation, states:

28 Plaintiff is informed and believes . . . that Rudolph breached the Agreement by

1 that Rudolph used his technology without compensation thus is governed by the venue provision
2 of the Confidentiality Agreement and must be dismissed.

3 **7. Failure to Participate in Dispute Resolution**

4 Nikoonahad alleges that Rudolph refused to negotiate or mediate as paragraph 20 of the
5 Agreement required. SAC ¶ 45; Pl.’s Opp. at 11-12. Nikoonahad claims that the instant dispute
6 first arose when Rudolph tried to force Nikoonahad to accept a lower consulting rate in February
7 2007, and that he made numerous efforts to address the issue with Bob Loiterman but Loiterman
8 would not return his calls. Pl.’s Opp. at 11. As the Court noted in its two previous dismissal
9 orders, “paragraph 15 of the Agreement specifically identifies Rudolph’s Vice President and
10 General Counsel, Robert Koch, as the Rudolph employee to be noticed ‘as required or permitted’
11 by the Agreement”, Second Dismissal Order at 7:1-3, and that “Rudolph’s duty to participate in
12 mediation to resolve disputes arising out of the Agreement does not mature unless a dispute
13 ‘[could] not be settled through negotiation.’” First Dismissal Order at 4:7-9. Nikoonahad’s letter
14 to Robert Koch on October 30, 2007 does not contain a request for negotiation and instead is a
15 demand for immediate mediation. Accordingly, Nikoonahad’s claim of failure to participate in
16 dispute resolution is insufficient.

17 **8. Dispute Resolution**

18 Even if Nikoonahad had sufficiently pled the individual grounds for the breach of
19

20 using Nikoonahad’s technology in, or as part of, its current multi-angle OCD
21 measurement products . . . and/or by using said technology for the development of
22 new OCD measurement products without compensating Nikoonahad.

23 SAC ¶ 47. Paragraph 44 of the SAC, which is the operative language for the claim of
breaching section 6 of the Agreement, states:

24 Rudolph breached the terms of the Agreement contained in section 6 in
25 that Rudolph applied, used, incorporated, or drew upon said technologies
26 for the development or sale of Rudolph products the technology disclosed
27 by Nikoonahad, i.e. technologies for optical critical dimension (OCD)
metrology

28 SAC ¶ 44.

1 contract claim discussed above, the claims cannot escape the dispute resolution provision of the
2 Agreement. The dispute resolution provision required Nikoonahad first to negotiate with Robert
3 Koch regarding any dispute arising from the Agreement and then to participate in mediation.
4 Litigation becomes appropriate only after mediation has been unsuccessful. Nikoonahad's letter
5 of October 30, 2007 did not contain a request for negotiation and instead was a demand for
6 mediation. The breach of contract claims are thus unripe and will be dismissed.

7 **B. Breach of the implied covenant of good faith and fair dealing**

8 Under New Jersey law, the implied covenant of good faith and fair dealing mandates that
9 "neither party shall do anything which will have the effect of destroying or injuring the right of
10 the other party to receive the fruits of the contract." *Emerson Radio Corp. V. Orion Sales, Inc.*,
11 253 F.3d 159, 170 (3rd Cir. 2001) (quoting *Sons of Thunder, Inc. v. Borden, Inc.*, 690 A.2d 575,
12 587 (N.J. 1997)). New Jersey law recognizes three instances in which a party may assert an
13 independent claim for breach of the implied covenant: "(1) when the contract does not provide a
14 term necessary to fulfill the parties' expectations . . . (2) when bad faith served as a pretext for
15 the exercise of a contractual right to terminate . . . [and] (3) when the contract expressly provides
16 a party with discretion regarding its performance." *Seidenberg v. Summit Bank*, 791 A.2d 1068,
17 1078 (N.J. Super Ct. App. Div. 2002) (citations omitted). The third instance may manifest "if the
18 discretion-exercising party . . . unilaterally use[s] that authority in a way that intentionally
19 subjects the other party to a risk beyond the normal business risks that the parties could have
20 contemplated at the time of contract formation." *Id.* (quoting *Wilson v. Amerada Hess Corp.*,
21 773 A.2d 1121 (N.J. 2001)). "Proof of 'bad motive or intention' is vital to an action for breach
22 of the covenant." *Brunswick Hills Racquet Club, Inc. v. Route 18 Shopping Ctr. Assocs., LLP*,
23 864 A.2D 387, 396 (N.J. 2005).

24 Nikoonahad alleges that Rudolph breached the implied covenant of good faith and fair
25 dealing by: (1) exercising its control over Nikoonahad's technology to deprive him of the ability
26 to license, sell, or otherwise commercialize its technology; (2) exercising control over the
27 development of products in such a way as to ensure that no products requiring payment of
28 royalties were developed before the expiration of the Agreement; and (3) retaining the subject

1 intellectual property for its own benefit after terminating the contract. SAC ¶¶ 53-55.
2 Nikoonahad claims that Greg Wolf, Rudolph’s Director of Transparent Products, upon whom
3 Rudolph relied to make decisions regarding the OCD product development effort, had antipathy
4 toward Nikoonahad. SAC ¶ 57. Nikoonahad argues that Greg Wolf’s personal conflict with
5 Nikoonahad along with the conducts of Rudolph through out the contractual relationship are
6 sufficient to support a claim of bad faith.³ Pl.’s Opp. at 15:22-24. Viewing the allegations in the
7 SAC as true, the Court concludes that Nikoonahad has sufficiently pled a claim for breach of the
8 implied covenant of good faith and fair dealing.

9 **C. Fraud.**

10 “Under California law, parol evidence cannot be introduced to show fraud or
11 misrepresentation if the parol evidence contradicts the language of an integrated contract: ‘[i]f
12 the false promise relates to the matter covered by the main agreement and contradicts or varies
13 the terms thereof, any evidence of the false promise directly violates the parol evidence rule and
14 is inadmissible.’” *Brinderson-Newberg Joint Venture v. Pacific Erectors, Inc.*, 971 F.2d 272,
15 281 (9th Cir. 1992) (citing *Price v. Wells Fargo Bank*, 213 Cal. App. 3d 465 (1989)).

16 Nikoonahad contends that the parol evidence shows the intent of the parties to develop
17 the technology and establishes that Rudolph had no intention of performing at the time it entered
18 into the Agreement but instead sought Nikoonahad’s technology for its own use without
19 performing according to the terms of the Agreement. Pl.’s Opp. at 16-17. However, the terms of
20 the Agreement did not obligate Rudolph to develop royalty-bearing products or engage
21 Nikoonahad for his consulting services, but rather obligated Rudolph to pay \$100,000 in
22 exchange for the right to develop and sell Nikoonahad’s technology, which Rudolph did. The
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25 ³Nikoonahad alleges specifically that Rudolph: never was timely in its payments to
26 Nikoonahad; tried surreptitiously to get Nikoonahad to assign the patent without exercising the
27 option to purchase it; abandoned the European and Taiwan applications without informing
28 Nikoonahad; did not tried to involve Nikoonahad in the application pending before the USPTO
and concealed the USPTO’s rejection from Nikoonahad; and represented to Nikoonahad that it
was “eager to move forward together” but after obtaining control Rudolph stonewalled repeated
requests from Nikoonahad for information regarding the project.

1 parol evidence that Nikoonahad that seeks to admit contradicts the language of the Agreement
2 and therefore is barred by the integration clause. Accordingly, the fraud claim will be dismissed.

3 **D. Leave To Amend**

4 Fed.R.Civ.P. 15(a)(2) provides that leave to amend “shall be freely given when justice
5 so requires.” “The decision of whether to grant leave to amend nevertheless remains within the
6 discretion of the district court, which may deny leave to amend due to “. . . repeated failure to
7 cure deficiencies by amendments previously allowed . . . [and] futility of amendment.””
8 *Leadsinger, Inc. v. BMG Music Pub.*, 512 F.3d 522, 532 (9th Cir. 2008) (citing *Foman v. Davis*,
9 371 U.S. 178, 182, 83 S.Ct. 227, 9 L.Ed.2d 222 (1962)). As discussed above, Nikoonahad’s
10 breach of contract claims cannot escape the dispute resolution provision of the agreement. The
11 Court also notes that the SAC is Nikoonahad’s third attempt at pleading the breach of contract and
12 fraud claims, and that the claims are insufficient despite detailed guidance from the Court in its
13 previous orders. Accordingly, the breach of contract and fraud claims will be dismissed without
14 leave to amend.

15 **IV. ORDER**

16 For the reasons set forth herein, the motion to dismiss is DENIED with respect to the
17 claim for breach of implied covenant of good faith and fair dealing, and GRANTED with
18 without leave to amend with respect to the claims for breach of contract and fraud. Defendants
19 shall file their answer within twenty (20) days of the date this order is filed.

20
21 **IT IS SO ORDERED.**

22 DATED: 5/12/2009

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24 
25 JEREMY FOGEL
26 United States District Judge

1 This Order has been served upon the following persons:

2 Anthony J Weibell aweibell@wsgr.com, vshreve@wsgr.com

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