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**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA**

AMERICAN SHOOTING CENTER,
INC.,

Plaintiff,

v.

SECFOR INTERNATIONAL, et al.,

Defendants.

Case No. 13cv1847 BTM(JMA)

**ORDER GRANTING IN PART
AND DENYING IN PART
MOTION TO DISMISS
SECOND AMENDED
COUNTERCLAIM AND
GRANTING MOTION FOR
LEAVE TO FILE AMENDED
COMPLAINT**

KEIKO ARROYO and PATRICK
SWEENEY aka RICK SWEENEY,

Counter-Claimants,

v.

AMERICAN SHOOTING CENTER,
INC., et al.

Counter-Defendants.

Counterdefendants American Shooting Center, Inc., the Recce Group, Inc., and Marc Halcon have filed a motion to dismiss the Second Amended Counterclaim. American Shooting Center, Inc., and the Recce Group, Inc., have also filed a motion for leave to file an Amended Complaint. For the reasons discussed below, the motion to dismiss is **GRANTED IN PART** and

1 **DENIED IN PART**, and the motion for leave to amend the Complaint is
2 **GRANTED.**

3
4 **I. BACKGROUND**

5 This dispute concerns videos and other course materials used by Keiko
6 Arroyo and Patrick Sweeney in providing high threat protection training,
7 including a GI-Bill-funded protection training class at MiraCosta College.

8 Plaintiff American Shooting Center, Inc. (“ASC”), is in the business of
9 providing specialty-training courses for security, medical procedures and
10 protection, among other things. (Compl. ¶ 22.) Arroyo was an employee of
11 ASC from October of 2002 to February 2005. (Compl. ¶ 23.) Sweeney worked
12 for ASC from September 23, 2002 to April 13, 2004, and was hired again as a
13 full-time employee on or about September 20, 2006. (Compl. ¶ 24.)

14 ASC alleges that as part of his work duties, Sweeney was to prepare
15 training courses and training procedures for use by ASC. (Compl. ¶ 25.) The
16 courses included videos and photographs of training and various security and
17 medical scenarios, as well as materials for class instruction. (Id.) ASC
18 explains that it terminated Sweeney in October of 2012, after ASC learned that
19 Sweeney was working with Arroyo in a competing business to provide training
20 courses using ASC’s videos, photographs, and courses without ASC’s
21 knowledge. (Compl. ¶¶ 30-31.) According to ASC, Sweeney had been
22 operating a competing business against ASC since 2007 while receiving
23 compensation from ASC in the approximate amount of \$75,000 per year.
24 (Compl. ¶ 36.)

25 In its Complaint, ASC asserts claims for: (1) copyright infringement;
26 (2) secondary infringement of copyright; (3) unfair competition under California
27 common law; (4) violation of Cal Bus. & Prof Code § 17200; (5) tortious
28 interference with contractual relations; (6) intentional interference with

1 prospective economic relations; (7) negligent interference with prospective
2 economic relations; (8) unjust enrichment; (9) fraud; (10) violation of Cal. Penal
3 Code § 496; (11) declaratory judgment; and (12) request for preliminary
4 injunction.

5 Arroyo and Sweeney claim that Sweeney was hired by ASC/Marc Halcon
6 in 2006 to bid and manage the renewal of a Navy contract. (Second Amended
7 Counterclaim (“SAC”) ¶ 21.) Arroyo and Sweeney allege that at all times, ASC
8 and Halcon were aware that Sweeney had his own separate endeavors,
9 including authoring and devising courses to teach threat protection to civilians.
10 (SAC ¶¶ 23-24.) In January of 2010, Arroyo referred Sweeney to MiraCosta
11 College’s Community Services Division for purposes of the two of them working
12 together to provide a training program to the school. (SAC ¶ 28.)
13 Subsequently, Sweeney and Arroyo provided MiraCosta College with a training
14 program where Arroyo taught the security guard and firearms subjects and
15 Sweeney taught the four day bodyguard module. (SAC ¶ 29.) This course
16 began to be taught five or six times per year. (Id.)

17 In or around April of 2012, MiraCosta College requested that Sweeney
18 and Arroyo provide a GI-Bill-funded protection training class for the College.
19 (SAC ¶ 32.) According to Sweeney and Arroyo, this work had nothing to do
20 with Sweeney’s employment with ASC or Halcon. (Id.) Sweeney did contact
21 Halcon to see if ASC would be interested in being paid as a supplier to provide
22 training facility premises for the course. (SAC ¶ 33.) Halcon agreed to rent the
23 facility to Sweeney and Arroyo for the course. (Id.) Halcon also agreed to rent
24 the facility so that Sweeney and Arroyo could create a promotional video for the
25 MiraCosta College training class. (SAC ¶ 34.)

26 The SAC asserts the following claims against ASC, Halcon, and the
27 Recce Group, Inc.: (1) declaratory relief; (2) copyright registration fraud; (3) civil
28 conspiracy; (4) unfair competition under California common law; (5) unfair

1 competition - Cal. Bus. & Prof. Code § 17200; (6) tortious interference with
2 contractual relations; (7) intentional interference with prospective economic
3 relations; (8) negligent interference with prospective economic relations;
4 (9) unjust enrichment; (10) fraud; (11) defamation; (12) trade libel; (13) breach
5 of covenant of good faith and fair dealing; (14) [reserved];
6 (15) concealment/fraudulent inducement of contract; and (16) injunction.

7 8 **II. DISCUSSION**

9 10 **A. Motion to Dismiss Second Amended Counterclaim**

11 Counterdefendants move to dismiss all of the counterclaims except for
12 the first counterclaim for declaratory relief. As discussed below, the Court
13 denies the motion as to the eleventh counterclaim for defamation, grants the
14 motion in part as to the second counterclaim for copyright registration fraud,
15 and grants the motion as to the remaining counterclaims.

16 17 **1. Standard**

18 A motion to dismiss under Federal Rule of Civil Procedure 12(b)(6)
19 should be granted only where a plaintiff's complaint lacks a "cognizable legal
20 theory" or sufficient facts to support a cognizable legal theory. Balistreri v.
21 Pacifica Police Dept., 901 F.2d 696, 699 (9th Cir. 1988). When reviewing a
22 motion to dismiss, the allegations of material fact in plaintiff's complaint are
23 taken as true and construed in the light most favorable to the plaintiff. See
24 Parks Sch. of Bus., Inc. v. Symington, 51 F.3d 1480, 1484 (9th Cir. 1995).
25 Although detailed factual allegations are not required, factual allegations "must
26 be enough to raise a right to relief above the speculative level." Bell Atlantic v.
27 Twombly, 550 U.S. 544, 555 (2007). "A plaintiff's obligation to prove the
28 'grounds' of his 'entitle[ment] to relief' requires more than labels and

1 conclusions, and a formulaic recitation of the elements of a cause of action will
2 not do.” Id. “[W]here the well-pleaded facts do not permit the court to infer
3 more than the mere possibility of misconduct, the complaint has alleged - but
4 it has not show[n] that the pleader is entitled to relief.” Ashcroft v. Iqbal, 565
5 U.S. 662, 679 (2009) (internal quotation marks omitted). Only a complaint that
6 states a plausible claim for relief will survive a motion to dismiss. Id.

7 8 2. Copyright Registration Fraud (Second Counterclaim)

9 Counterclaimants allege that ASC and Halcon sought copyright
10 registration on training materials that were authored by and belonged to
11 Sweeney. (SAC ¶ 51.) According to the SAC, ASC/Halcon knew that the
12 materials were not created pursuant to a work-made-for-hire and that ASC had
13 no right to copyright the materials. (SAC ¶ 53.) Nevertheless,
14 Counterclaimants allege, ASC and Halcon fraudulently filed for copyright
15 registration of the materials in dispute. (Id.)

16 Counterdefendants argue that this claim should be dismissed because
17 (1) fraud on the Copyright Office is not a stand-alone claim, and
18 (2) Counterclaimants have failed to provide factual support for their assertion
19 that they have been prejudiced by the alleged fraud.

20 Although fraud on the Copyright Office is normally an affirmative defense
21 to copyright infringement, not a cause of action, courts have allowed accused
22 infringers to bring a claim for declaratory judgment that a copyright is invalid
23 based on fraud on the Copyright Office. See, e.g., Gomba Music, Inc. v. Avant,
24 2014 WL 6669182, ___ F. Supp. 3d ___ (E.D. Mich. Nov. 24, 2014); Shirokov v.
25 Dunlap, Grubb & Weaver, PLLC, 2012 WL 1065578 (D. Mass. March 27,
26 2012). However, damages are not available on a claim for fraud on the
27 Copyright Office. Shirokov, 2012 WL 1065578, at *31.

28 The SAC alleges that Counterclaimants have suffered harm from the

1 alleged fraud on the Copyright Office and are entitled to compensation. (SAC
2 ¶ 54.) The SAC also asks that the copyrights in dispute be invalidated. (Id.)
3 To the extent that Counterclaimants seek damages on their claim for fraud on
4 the Copyright Office, their claim is dismissed. However, the Court will allow the
5 claim to proceed to the extent Counterclaimants seek declaratory relief.

6 As for Counterdefendants' argument that Counterclaimants have not
7 established prejudice, the Court disagrees. The Ninth Circuit has explained,
8 "Absent intent to defraud and prejudice, inaccuracies in copyright registration
9 do not bar actions for infringement." S.O.S., Inc. v. Payday, Inc., 886 F.2d
10 1081, 1086 (9th Cir. 1989). If, as Counterclaimants contend, they are the
11 rightful owners of the copyrights, they have been prejudiced if
12 Counterdefendants misrepresented that the works were works for hire and
13 thereby obtained the copyrights for themselves.

14 15 3. Civil Conspiracy (Third Counterclaim)

16 In their Third Counterclaim, Counterclaimants allege that Halcon, ASC,
17 and Does conspired to wrongfully extort money from Counterclaimants and
18 planned to destroy their business relationships with third parties and potential
19 customers by knowingly making unfounded claims of rights to
20 Counterclaimants' courses, course materials, and videos. (SAC ¶ 56.)
21 Counterclaimants allege that in furtherance of the conspiracy, on October 19,
22 2012, Halcon had a conversation with Sweeney about the GI-Bill-funded
23 courses at MiraCosta College. (SAC ¶ 58.) Halcon told Sweeney that
24 Sweeney and Arroyo had a "good thing going." (Id.) Halcon then said that
25 since Sweeney had made the promotional video for the training courses while
26 he was working for ASC, Halcon would claim that the video was owned by
27 ASC, "but that if Sweeney and Arroyo wanted to 'make things right,' (by paying
28 money or giving him an interest in their business[]), there would 'be no

1 problems.” (Id.) Subsequently, Halcon fired Sweeney when he refused to
2 accede to Halcon’s demands. (Id.)

3 To allege a claim of civil conspiracy, a plaintiff must allege (1) the
4 formation and operation of the conspiracy; (2) the wrongful acts done in
5 furtherance of the conspiracy; and (3) resulting damage. Mosier v. Southern
6 California Physicians Ins. Exchange, 63 Cal. App. 4th 1022, 1049 (1998). A
7 civil conspiracy alone is not actionable unless a civil wrong has been committed
8 resulting in damage. Applied Equipment Corp. v. Litton Saudi Arabia Ltd., 7
9 Cal. 4th 503, 510 (1994).

10 Counterclaimants have not sufficiently alleged the formation of a civil
11 conspiracy. Although Counterclaimants assert that Halcon, ASC, and
12 unidentified Does formed a conspiracy, Counterclaimants admit that they do not
13 know “who Halcon was working with at his controlled companies in this
14 conspiracy to put Counterclaimants out of business.” (Opp. at 17:19-21.)

15 Furthermore, Counterclaimants have not made out a plausible claim that
16 a civil wrong was committed in furtherance of the alleged conspiracy.
17 Counterclaimants state that Counterdefendants attempted to destroy Sweeney
18 and Arroyo’s business relationships with third parties and potential customers,
19 however, the SAC provides no facts regarding these business relationships.
20 Counterclaimants state that, at this time, “they are unable to determine the
21 exact extent of the business relationships with third parties and potential
22 customers Counter-Defendants attempted to destroy” (SAC ¶ 56.)¹

23 Counterclaimants also allege that Counterdefendants engaged in
24 wrongful extortion. Again, there are insufficient facts to establish this claim.
25 California courts have allowed a cause of action for the recovery of money
26 obtained by extortion, menace, or duress, such as by wrongful threats of
27

28 ¹ In Section II.A.5, infra, the Court discusses in greater detail the lack of facts regarding disrupted business relationships or potential business relationships.

1 criminal or civil prosecution. Fuhrman v. Cal. Satellite Sys., Inc., 179 Cal. App.
2 3d 408, 426 (1986). Halcon allegedly indicated that “there would be no
3 problems,” if Arroyo and Sweeney gave him a share of their business or paid
4 him. But Halcon’s vague statement hardly rises to the level of a wrongful threat
5 or duress. Furthermore, it is unclear what damages were proximately caused
6 by the alleged attempted extortion.

7
8 4. Unfair Competition (Fourth Counterclaim), Cal. Bus. & Prof. Code
9 § 17200 (Fifth Counterclaim), and Unjust Enrichment (Ninth
10 Counterclaim)

11 Counterclaimants allege that Counterdefendants engaged in unfair
12 competition in violation of California law and Cal. Bus. & Prof. Code § 17200
13 and were unjustly enriched by fraudulently obtaining a copyright on their
14 promotional video and passing off as their own, the video, as well as other
15 videos, photographs, course materials, and courses.

16 Counterdefendants argue that these claims as well as others are
17 preempted by the Copyright Act. The Copyright Act preempts a state law
18 cause of action if (1) the rights that a plaintiff asserts under state law are “rights
19 that are equivalent” to those protected by the Copyright Act; and (2) the work
20 involved falls within the “subject matter” of the Copyright Act. Kodadek v. MTV
21 Networks, Inc., 152 F.3d 1209, 1212 (9th Cir. 1998). A state law claim is not
22 preempted, however, if it requires an additional element beyond the use of the
23 copyrighted work. Del Madera Prop. v. Rhodes and Gardner, Inc., 830 F.2d
24 973, 977 (9th Cir. 1987).

25 The Ninth Circuit has held that a “reverse passing off” claim is not
26 preempted by federal patent or copyright laws because such a claim includes
27 the requisite extra element – i.e., misappropriation of the fruits of another’s
28 labor. Summit Machine Tooling Mfg. Corp. v. Victor CNC Systems, Inc., 7 F.3d
1434, 1441 (9th Cir. 1993). “Reverse passing off” occurs when someone

1 markets another's product as their own. Id.

2 It appears that Counterclaimants are attempting to allege a "reverse
3 passing off" claim, that is, that Counterdefendants have engaged in unfair
4 competition and unjustly enriched themselves by claiming that they own videos,
5 courses, and other materials belonging to Counterclaimants.
6 Counterclaimants' efforts fall short, however, because they have not alleged
7 facts showing that Counterdefendants actually marketed the videos, courses,
8 and other materials to third parties. Counterclaimants allege on "information
9 and belief" only that "Counter-Defendants have received the benefit and
10 success of using Counter-Claimants' videos, photographs, civilian protection
11 Courses, and course materials, without ever having compensated Counter-
12 Claimants for the use of these materials." (SAC ¶ 109.) These allegations do
13 not give rise to a plausible claim of reverse passing off.

14
15 5. Tortious Interference with Contractual Relations (Sixth
16 Counterclaim), Intentional Interference with Prospective Economic
17 Relations (Seventh Counterclaim), Negligent Interference with
Prospective Economic Relations (Eighth Counterclaim)

18 In their sixth, seventh, and eighth counterclaims, Counterclaimants
19 allege that Counterdefendants intentionally interfered with Counterclaimants'
20 preexisting contracts with third parties and also interfered with prospective
21 economic relations by representing to the public that ASC owns the copyrights
22 to the materials in dispute and that Counterdefendants have kicked
23 Counterclaimants off of ASC's property for wrongful conduct. (SAC ¶¶ 86, 98.)

24 Again, the SAC is short on supporting facts. Counterclaimants do not
25 identify the existing contract(s) that have been disrupted, nor do they identify
26 prospective business relationships that were derailed due to
27 Counterdefendants' alleged actions. Counterclaimants admit that they "are
28 unable to determine the actual extent of business opportunities, business and
income lost due to this wrongful, intentional interference until discovery is

1 completed.” (SAC ¶¶ 87.) Although the Court does not expect a detailed
2 recitation of lost income in the pleadings, Counterclaimants must at least
3 identify one preexisting contract and one prospective business relationship that
4 were disrupted, and must set forth facts showing that Counterdefendants’
5 actions resulted in the interference.

6 In their Opposition, Counterclaimants assert that it is clear from the SAC
7 that the relevant contractual relationship and prospective economic relationship
8 were those that Counterclaimants had with MiraCosta College. The Court does
9 not agree that the SAC is clear on this point. There are no factual allegations
10 that MiraCosta broke off the preexisting contract and/or refused to engage in
11 any more business with Counterclaimants as a result of something
12 Counterdefendants said or did. Counterclaimants may add such facts if they
13 choose to amend their Counterclaim.²

14
15 6. Fraud (Tenth Counterclaim) and Concealment/ Fraudulent
16 Inducement of Contract (Fifteenth Counterclaim)

17 In their Tenth and Fifteenth Counterclaims, Counterclaimants allege that
18 Halcon committed fraud by repeatedly telling Sweeney that it was not a problem
19 for Sweeney to own and operate a side business relating to civilian protection
20 and teaching courses in security and personnel protection. (SAC ¶¶ 113, 164.)
21 According to the SAC, all along, Halcon knew his representations to Sweeney
22 were false and that he planned on wrongfully taking and claiming ownership of
23 Counterclaimants work and materials. (SAC ¶¶ 115, 166.) Counterclaimants
24 allege that if they had know Halcon’s representations were false, they either
25 would not have expended the time, money and effort in marketing and teaching

26
27 ² Counterdefendants contend that the claims for intentional interference with
28 prospective economic relations and negligent interference with prospective economic
relations are preempted by the Copyright Act. Summit suggests otherwise. 7 F.3d at 1442
(holding that claim for intentional interference with contract included requisite extra element
and was therefore not preempted by federal law).

1 their courses (SAC ¶ 120 - fraud claim), or would not have used
2 Counterdefendants as vendors and premises providers for their civilian
3 protection courses and, in the case of Sweeney, would not have worked for
4 Counterdefendants (SAC ¶ 168 - fraudulent inducement claim).

5 The Court finds that Counterclaimants' fraud claims fail to satisfy the
6 pleading requirements of Iqbal and Twombly. Although malice, intent,
7 knowledge, and other conditions of a person's mind may be alleged generally
8 under Fed. R. Civ. P. 9(b), a plaintiff alleging fraud must still allege facts from
9 which it can be inferred that the defendant's representations or assurances
10 were false when made. See, e.g., Electric Prop. East, LLC v. Marcus &
11 Millichap Co., 751 F.3d 990 (9th Cir. 2014) (holding that the complaint's factual
12 allegations did not support a plausible inference that the defendants had the
13 required specific intent to defraud). It is not sufficient to point to the
14 defendant's subsequent failure to perform as promised. Jhaveri v. ADT Sec.
15 Serv., Inc., 2012 WL 843315, at * 4 (C.D. Cal. March 6, 2012) (explaining that
16 the allegation that defendant failed to perform its promises did not plausibly
17 give rise to an inference that defendant never intended to honor the contract).

18 Other than the allegation that Halcon later acted inconsistently with his
19 prior assurances that Sweeney could run his own side businesses,
20 Counterclaimants do not allege facts from which it could be inferred that Halcon
21 knew at the time that he made the assurances that they were false and that
22 Halcon was secretly plotting all along to induce Sweeney into creating courses
23 and materials so he could later lay claim to them. Therefore, the Court
24 dismisses these counterclaims as well.

25
26 7. Defamation (Eleventh Counterclaim)

27 The SAC alleges that in or about May of 2014, Halcon told Michael Marin
28 in person that Sweeney was a felon, had a dishonorable discharge from the

1 United States Navy, had stolen guns from ASC, and transported the stolen
2 weapons across the border illegally, and that Sweeney's home had been raided
3 by the Sheriff's department on two separate occasions. (SAC ¶ 126.) The
4 SAC further alleges that all of these statements were false and put Sweeney
5 in a false light. (SAC ¶ 127.) In addition, Counterclaimants allege on
6 information and belief that Halcon made other damaging slanderous and
7 disparaging false statements about Sweeney to third parties. (Id.)

8 To state a prima facie case of defamation under California law, a plaintiff
9 must show (1) the intentional publication of (2) a statement of fact (3) that is
10 false (4) unprivileged and (5) has a natural tendency to injure or which causes
11 special damage. Smith v. Maldonado, 72 Cal. App. 4th 637, 645 (1999).
12 "Publication need not be to the 'public' at large; communication to a single
13 individual is sufficient." Id.

14 Counterclaimants have alleged sufficient facts to make out a plausible
15 claim of defamation against Halcon. Sweeney allegedly published false facts
16 about Sweeney to a third party (Marin), and those false facts regarding criminal
17 history and activity would have a natural tendency to injure. Counterdefendants
18 argue that the SAC lacks facts regarding the falsity of Halcon's alleged
19 statements. However, given that Sweeney would know whether he was a felon,
20 had stolen guns and transported them, and/or had his house raided, it is
21 sufficient that Sweeney just asserts that the statements were false. No further
22 details are necessary at this stage of the litigation. The motion to dismiss is
23 denied as to the defamation claim against Halcon.

24 25 8. Trade Libel (Twelfth Counterclaim)

26 In their trade libel counterclaim, Counterclaimants allege that Halcon's
27 statements to Marin strongly implied that Sweeney's business services could
28 not be trusted and that Marin should not associate with Sweeney. (SAC ¶ 134.)

1 Counterclaimants also allege on information and belief that Halcon made other
2 slanderous and disparaging false statements about Sweeney and his
3 companies' services to other third parties. (SAC ¶¶ 136.) Upon information and
4 belief, Counterclaimants allege that they have sustained actual damages in
5 that Sweeney and his companies have lost business and profits. (SAC ¶¶ 139.)
6 However, Counterclaimants state, "Sweeney is unable to determine the actual
7 extent of lost business and profits until discovery is completed" (Id.)

8 Unlike classic defamation, trade libel is not directed at the plaintiff's
9 personal reputation, but, rather, at the goods a plaintiff sells or the character of
10 his business. Aetna Cas. and Sur. Co., Inc. v. Centennial Ins. Co., 838 F.2d
11 346, 351 (9th Cir. 1988). The elements of a trade libel claim are: (1) a
12 publication, (2) which induces others not to deal with plaintiff, and (3) special
13 damages. Id.

14 Counterdefendants argue that the alleged statements about Sweeney do
15 not constitute trade libel because they do not disparage the goods or services
16 provided by Sweeney. However, since the alleged statements pertain to
17 criminal activity by Sweeney, particularly criminal activity involving guns, and
18 Sweeney's business involves protection and security, the statements arguably
19 disparage the quality of the services provided by Sweeney.

20 Counterclaimants' trade libel claim fails for the separate reason that the
21 SAC does not allege facts showing that Counterclaimants suffered pecuniary
22 damage as a result of the alleged trade libel. A claim for trade libel is based on
23 pecuniary damage and lies only where such damage has been suffered.
24 Leonardini v. Shell Oil Co., 216 Cal. App. 3d 547, 572 (1989). Although the
25 SAC talks about statements Halcon made to Marin, it is unclear whether Marin
26 was a potential customer and if so, whether Sweeney lost Marin's business as
27 a result of what Halcon said. Accordingly, Counterclaimants' trade libel claim
28 fails to state a claim.

1 9. Breach of the Covenant of Good Faith and Fair Dealing (Thirteenth
2 Cause of Action

3 Counterclaimants allege that Halcon’s claim to their promotional video
4 and his attempt to obtain a piece of their business breached the covenant of
5 good faith and fair dealing. The allegations of the SAC do not support a claim
6 for breach of the covenant of good faith and fair dealing.

7 The covenant of good faith and fair dealing is implied to prevent a
8 contracting party from engaging in conduct which frustrates the other party’s
9 rights to the benefits of the contract. Love v. Fire Ins. Exchange, 221 Cal. App.
10 3d 1136, 1153 (1990). The implied covenant should not, however, “be
11 endowed with an existence independent of its contractual underpinnings.” Id.
12 “It cannot impose substantive duties or limits on the contracting parties beyond
13 those incorporated in the specific terms of their agreement.” Guz v. Bechtel
14 Nat., Inc., 24 Cal. 4th 317, 375 (2000).

15 Counterclaimants have failed to tie the implied covenant (not to claim
16 rights to Sweeney’s separate business interests) to any specific contractual
17 obligation. The SAC claims that Counterclaimants and Counterdefendants
18 “have always had a covenant between them that Counter-Claimants would be
19 able to pursue their own separate and independent businesses in the field of
20 civilian force protection and other businesses.” (SAC ¶ 143.) It seems as if
21 Counterclaimants are claiming that this alleged understanding was part of an
22 oral contract. However, Counterclaimants do not allege facts regarding the
23 formation or terms of this contract.

24 Counterclaimants also attempt to tie the implied covenant to the
25 agreement between Counterclaimants and Counterdefendants regarding the
26 rental of ASC’s premises for the GI-Bill funded protection class. (SAC ¶ 149.)
27 Counterclaimants allege that the implied covenant in this agreement prohibited
28 Counterdefendants “from demanding additional moneys in violation of the
agreement with Counter-Claimants.” (Id.) However, according to the

1 allegations in the SAC, Counterdefendants did not demand additional moneys
2 for the rental of the premises. In fact, the SAC alleges that the class was held
3 on the ASC premises in late October of 2012, and Counterdefendants were
4 paid \$6,300 for rental of the premises and to pay Halcon for his time as an
5 instructor. (SAC ¶¶ 42-43.)

6 Counterdefendants' claim of right to the courses and materials developed
7 by Sweeney while he was in the employ of ASC, bears no relation to the
8 purposes and terms of the agreement regarding rental of the ASC premises.
9 The implied covenant cannot be used to create entirely different duties than
10 those encompassed by the agreement. Therefore, Counterclaimants have
11 failed to state a claim for breach of the covenant of good faith and fair dealing.

12
13 10. Injunction (Sixteenth Counterclaim)

14 In their sixteenth counterclaim, Counterclaimants seek a variety of
15 injunctive relief based on their other counterclaims. As conceded by
16 Counterclaimants, injunctive relief is a remedy, not a cause of action. See,
17 e.g., Rosenfeld v. JPMorgan Chase Bank, N.A., 732 F. Supp. 2d 952, 975
18 (N.D. Cal. 2010) (dismissing cause of action of declaratory relief and injunctive
19 relief because claim was more properly considered a remedy).
20 Counterclaimants may include a request for injunctive relief in the "prayer for
21 relief" section of their amended Counterclaim.

22
23 B. Motion for Leave to File Amended Complaint

24 ASC and the Recce Group, Inc., seek to file an Amended Complaint. The
25 motion was filed within the time prescribed by the Second Amended Scheduling
26 Order entered in this case. [Doc. 48.] The proposed Amended Complaint
27 (1) adds Recce as a plaintiff; (2) renames MiraCosta Community College
28 District as a defendant and names as a new defendant Linda Kurokawa in her

1 official capacity as the Director of MiraCosta's Department of Community
2 Services and Business Development; and (3) deletes eight claims; revises the
3 copyright claims and the claims for common law unfair competition and
4 violation of Cal. Penal Code § 496; and adds three new claims for breach of
5 fiduciary duty, aiding and abetting breach of fiduciary duty, and conversion.

6 Under Fed. R. Civ. P 15(a), leave to amend "shall be freely given when
7 justice so requires." This policy is "to be applied with extreme liberality."
8 Morongo Band of Mission Indians v. Rose, 893 F.2d 1074, 1979 (9th Cir. 1990).
9 Factors to be considered in determining whether to grant leave to amend
10 include (1) any bad faith or dilatory motive of the moving party; (2) any
11 prejudice to the opposing party; (3) undue delay; and (4) futility of the proposed
12 amendment. Jackson v. Bank of Hawaii, 902 F.2d 1385, 1387 (9th Cir. 1990).
13 It is the consideration of prejudice to the opposing party that carries the
14 greatest weight. Eminence Capital, LLC v. Aspeon, Inc., 316 F.3d 1048, 1052
15 (9th Cir. 2003).

16 Defendants argue that the motion for leave to amend should be denied
17 because the amendment is sought in bad faith and after undue delay, and
18 because Defendants will suffer prejudice. The Court disagrees. Plaintiffs seek
19 to add Recce as a plaintiff in response to Recce being named as a
20 counterdefendant on October 10, 2014. Plaintiffs wish to bring back in
21 MiraCosta as a defendant and add Kurokawa as a defendant based on
22 information learned during discovery in the fall of 2014. Although the three new
23 claims for breach of fiduciary duty, aiding and abetting breach of fiduciary duty,
24 and conversion are not based on the discovery of new facts, the Court finds it
25 reasonable that ASC's new counsel (substituted on October 7, 2014)
26 reevaluated the Complaint and concluded that the Complaint needed to be
27 revised and streamlined. (Supplemental Wright Decl. ¶ 3.) The Court
28 concludes that there are legitimate reasons for amendment of the Complaint

1 and that Plaintiffs did not delay in bringing their motion to amend.

2 As for prejudice, Defendants argue that it would be unfair to allow
3 amendment because of the discovery cutoff date of April 15, 2015, and the
4 deadline for expert designations. Defendants also argue that the addition of
5 new claims and defendants will cause delay and expense. The discovery
6 deadlines are not an issue because the dates in the Second Amended
7 Scheduling Order have been vacated. [Doc. 66.] Magistrate Judge Adler will
8 reset the dates in light of this order.

9 This is not a situation where the litigation has progressed so far that it
10 would be detrimental to the parties to alter the course of the action. Discovery
11 is still ongoing. No depositions have been taken, and no summary judgment
12 motions have been filed. To the extent that the amendment of the Complaint
13 will cause the litigation to drag on longer, Defendants can hardly complain
14 because the Court is also allowing them to amend their Counterclaim.

15 Defendants have not established the existence of undue delay, bad faith,
16 futility, or prejudice. Therefore, the Court grants Plaintiffs' motion for leave to
17 amend the Complaint.


18 19 **III. CONCLUSION**

20 For the reasons discussed above, Counterdefendants' motion to dismiss
21 the Second Amended Counterclaim is **GRANTED IN PART** and **DENIED IN**
22 **PART**. The second counterclaim (only to the extent it seeks damages), third
23 counterclaim, fourth through tenth counterclaims, twelfth counterclaim,
24 thirteenth counterclaim, fifteenth counterclaim, and sixteenth counterclaim are
25 **DISMISSED** for failure to state a claim. The Court will allow Counterclaimants
26 to file a Third Amended Counterclaim remedying the deficiencies identified in
27 this Order. If Counterclaimants choose to file a Third Amended Counterclaim,
28 they must do so within 30 days of the entry of this Order.

1 The Court **GRANTS** the motion by ASC and Recce for leave to file an
2 Amended Complaint. Plaintiffs shall electronically file the Amended Complaint
3 within 7 days of the entry of this Order.

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IT IS SO ORDERED.
DATED: April 27, 2015


BARRY TED MOSKOWITZ, Chief Judge
United States District Court