UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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2FA TECHNOLOGY LLC,

Plaintiff,

**10 Civ. 9648 (BSJ)**

– against –

ORACLE CORPORATION, a Delaware Corporation, and PASSLOGIX, INC., a wholly owned subsidiary of ORACLE CORPORATION,

Defendants.

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**DEFENDANTS' MEMORANDUM IN SUPPORT OF THEIR MOTION TO STAY THIS CASE PENDING DISPOSITION OF A FIRST-FILED, CLOSELY-RELATED ACTION**

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January 31, 2011

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Defendants Oracle Corporation and Passlogix, Inc. respectfully submit this memorandum in support of their motion to stay this action ("This Action").

## PRELIMINARY STATEMENT

On its Civil Cover Sheet in This Action, Plaintiff 2FA Technology LLC disclosed that This Action is related to another action currently pending before this Court: *Passlogix, Inc. v. 2FA Technology LLC*, et al. 08 Civ. 10986 (the "First-Filed Action"). Indeed, 2FA's claims in This Action are based on precisely the same facts and circumstances and assert essentially the same legal theories as its counterclaims in the First-Filed Action. In fact, four of 2FA's five counterclaims in the First-Filed Action are asserted – in *identical* language – in This Action. The Court accepted This Action as related to the First-Filed Action on January 18, 2011.

2FA's counterclaims in the First-Filed Action are the subject of a pending and potentially dispositive summary judgment motion. If Passlogix's summary judgment motion is granted, as we expect it will be, This Action will be barred under principles of res judicata. In the interests of judicial economy and efficiency, Defendants therefore respectfully request that this Court stay This Action pending disposition of the First-Filed Action.

## BACKGROUND

### A. The First-Filed Action

In 2006, Passlogix and 2FA entered into a license agreement (the "License Agreement"), whereby 2FA licensed certain technology to Passlogix for Passlogix to re-brand and sell. The product was unsuccessful and the parties' relationship deteriorated and, in August 2008, they decided to terminate the License Agreement. In December 2008, Passlogix initiated the First-Filed Action for breach of contract and tortious interference, as well as a declaration that

Passlogix did not breach the License Agreement.[1] 2FA countersued for breach of contract, breach of the covenant of good faith and fair dealing, unfair competition, misappropriation, and interference with business relations. (Exhibit 2) 2FA asserts all but its interference with business relations claim *again* in This Action.

In the First-Filed Action, the parties entered into a stipulated and Court-ordered protective order which stated that "Confidential Materials shall be used solely for the purposes of this action" and that those materials "shall not be used for any other purpose." (Exhibit 3 at ¶ 18) Subject to the protective order, Passlogix produced over 90,000 pages of documents throughout discovery, which ended more than a year ago.

Eight months into the First-Filed Action, in July 2009, 2FA made a belated application for a preliminary injunction, which sought to enjoin the sale of certain Passlogix products. The Court denied 2FA's motion in June 2010. However, in December 2010, 2FA renewed its preliminary injunction application, recycling the same arguments made in its first failed attempt and asserting many of the same claims – based on the same facts – that 2FA makes in This Action. That motion, which we believe is completely without merit, has not yet been fully briefed.

In May 2010, Passlogix moved for summary judgment in the First-Filed Action on all of 2FA's claims on the principal ground that there is no evidence to support any of them. Passlogix's summary judgment motion has been fully briefed since June 2010 and, if granted, would dispose of all of 2FA's claims in the First-Filed Action and the majority – and very likely all – of 2FA's claims in This Action.

[1] Passlogix's complaint in the First-Filed Action is attached as Exhibit 1 to the accompanying declaration of Daniel P. Goldberger, Esq. Other documents referenced in this memorandum are likewise attached to Mr. Goldberger's declaration.

**B. Oracle**

On October 5, 2010, Oracle and Passlogix announced that they had entered into an agreement for Oracle to acquire Passlogix. On November 6 Passlogix became a wholly-owned subsidiary of Oracle. Prior to the acquisition, Passlogix was an original equipment manufacturer ("OEM") for Oracle, which purchased certain of Passlogix's products and rebranded and sold these products to Oracle customers under Oracle's brand. 2FA knew about the OEM relationship between Passlogix and Oracle prior to the acquisition. In fact, 2FA sought, and the Court in the First-Filed Action denied as irrelevant and improper, discovery from Passlogix customers including Oracle. *See* Exhibit 4 ("[W]e are not prepared to allow broad-based discovery of non-party customers or prospective customers or partners of [Passlogix] when the effort seems to be based solely, or in part, on a desire to use the disruption of business relations as bargaining leverage in this case. . . . It also bears mention that defendant 2FA has admitted that it is contemplating litigation against Oracle on similar issues (see Salyards Dep. at 85-87), thus raising the possibility that the requested subpoena is motivated as well by the desire to obtain pre-suit discovery from that entity."). In the wake of failed settlement discussions following the acquisition, 2FA has since filed this lawsuit and a petition in Texas state court and launched a campaign of press assaults and baseless motion practice in an attempt to accomplish what the Order in the First-Filed action denying discovery against Oracle sought to foreclose. (Exhibit 4, Exhibit 5, Exhibit 6)

**C. This Action**

In This Action, 2FA's complaint alleges eleven separate causes of action: (1) breach of contract; (2) breach of the covenant of good faith and fair dealing; (3) misappropriation; (4) criminal possession of stolen property in the first degree under NY CLS Penal § 165.44; (5) unfair competition; (6) conversion; (7) trespass to chattels; (8) unjust enrichment/restitution; (9)

civil conspiracy; (10) aiding and abetting; and (11) an accounting. 2FA's breach of contract, breach of the duty of good faith and fair dealing, misappropriation and unfair competition claims are identical to its claims in the First-Filed Action (some of the language, including entire paragraphs, is verbatim). (2FA Compl. ¶¶ 107-174) 2FA's new claims for conversion, possession of stolen property and trespass to chattels are based on the same facts as its allegations in the First-Filed Action – namely that Passlogix allegedly misappropriated 2FA's source code and intellectual property in its possession and incorporated it into its products. Here, these allegations are simply given a new title. In addition, 2FA's unjust enrichment/restitution, civil conspiracy, aiding and abetting and accounting claims are derivative of its claims asserted in the First-Filed Action and depend for their validity upon the continued existence of those claims. For example, 2FA's unjust enrichment/restitution and civil conspiracy claims are premised upon its (meritless) allegations of misappropriation and breach of contract. If those claims are dismissed on summary judgment in the First-Filed Action (as Passlogix and Oracle believe they should be), then 2FA's unjust enrichment/restitution and civil conspiracy claims cannot exist as a matter of law.

Given Passlogix's pending summary judgment motion in the First-Filed Action, to avoid this duplicative and unnecessary litigation and in the interests of judicial economy, this Court should stay This Action pending disposition of the First-Filed Action.

**ARGUMENT**

"[T]he power to stay proceedings is incidental to the power inherent in every court to control the disposition of the causes on its docket with economy of time and effort for itself, for counsel, and for litigants." *Landis v. North Am. Co.*, 299 U.S. 248, 254 (1936). This power should be exercised where, as here, it will result in the avoidance of unnecessary and duplicative litigation. *Colorado River Water Conservation Dist. v. United States*, 424 U.S. 800, 817 (1976)

("As between federal district courts . . . though no precise rule has evolved, the general principle is to avoid duplicative litigation."). A court's inherent power to stay should be exercised in such a manner as to "conserve[] scarce judicial resources and promote[] the efficient and comprehensive disposition of cases." *Howard v. Klynveld Peat Marwick Goerdeler*, 977 F. Supp. 654, 664 (S.D.N.Y. 1997), *aff'd*, 173 F.3d 844 (2d Cir. 1999).

**POINT I**
**THIS ACTION SHOULD BE STAYED BECAUSE IT IS DUPLICATIVE OF THE FIRST-FILED ACTION**

It is a "well-settled principle" in the Second Circuit that "where proceedings involving the same parties and issues are pending simultaneously in different federal courts the first-filed of the two takes priority absent 'special circumstances' or a balance of convenience in favor of the second." *Sotheby's Inc., v. Minor*, No. 08 Civ. 7694, 2009 U.S. Dist. LEXIS 3509, at *3–4 (S.D.N.Y. Jan. 6, 2009) (Jones, J.). The first to file rule is based on principles of judicial economy and efficiency, *id.* at *4, and seeks to "'avoid duplication of judicial effort, avoid vexatious litigation in multiple forums, achieve comprehensive disposition of litigation among parties over related issues, and eliminate the risk of inconsistent adjudication.'" *Regions Bank v. Wieder & Mastroianni, P.C.*, 170 F. Supp. 2d 436, 439 (S.D.N.Y. 2001) (quoting *Marshak v. Reed*, No. 01 Civ. 7151, 2001 U.S. App. LEXIS 13146, at *2 (2d Cir. June 8, 2001)).

The rule applies with equal force where two substantially similar cases are filed in the same court. *See Fiore v. McDonald's Corp.*, No. 95 Civ. 2708, 1996 U.S. Dist. LEXIS 12354, at *37 (E.D.N.Y. June 18, 1996) (citing *Sieling & Jarvis Corp. v. Nat'l Bulk Carriers*, 190 F.2d 557 (2d Cir. 1951)) ("The principle that it is unjust and inefficient to allow two separate actions between identical parties and involving identical issues to proceed has also been applied when the two actions are pending in the same court."). *See also Sutcliffe Storage & Warehouse Co. v.*

*United States*, 162 F.2d 849, 851 (1st Cir. 1947) ("The pendency of a prior pending action in the same federal court is ground for abatement of the second action.").

Pursuant to the first to file rule, in order to conserve judicial resources, when a duplicative action is filed, courts should stay the later-filed action, pending resolution of the first-filed action. *See Catskill Mountains Chapter of Trout Unlimited, Inc. v. United States EPA*, 630 F. Supp. 2d 295 (S.D.N.Y. 2009) (staying proceedings pending appeal); *Baker Indus., Inc. v. Cerberus Ltd.*, 549 F. Supp. 312, 314 (S.D.N.Y. 1982) ("When two actions involving the same parties and issues are pending in two district courts, there is a danger of inconsistent results and duplication of judicial effort. Thus, sound judicial administration requires that, in such circumstances, priority be given to the first action filed.").

Under the first to file rule, the Court should stay This Action pending the outcome of the First-Filed Action. Allowing both actions to proceed simultaneously would result in a duplication of judicial and litigant effort and resources, a waste of money and could risk inconsistent results in the two actions. A stay here would protect the parties – and the Court – against these risks.

Although This Action contains additional purported causes of action not present in the First-Filed Action, This Action is still duplicative because both actions arise out of the same facts and circumstances and the relief sought in both actions is based on the same underlying alleged wrongs. *See Regions Bank*, 170 F. Supp. 2d at 441; *Howard*, 977 F. Supp. at 664 ("a suit is duplicative if the claims, parties and available relief do not significantly differ between the two actions") (quoting *Serlin v. Arthur Andersen & Co.*, 3 F.3d 221, 223 (7th Cir. 1993). Indeed, although it will be more efficient to assess when the First-Filed Action is resolved, every claim in This Action is likely to be barred, not only by principles of res judicata, but also by Federal

Rule of Civil Procedure 13.[2] Accordingly, because both actions involve common questions of law and fact (an understatement, to be sure), This Action is duplicative of the First-Filed Action, and thus should be stayed pending disposition of the First-Filed Action.

Passlogix's pending summary judgment motion in the First-Filed Action also weighs heavily in favor of staying This Action. *See Catskill Mountains*, 630 F. Supp. 2d at 305 (a stay is "appropriate while awaiting 'the outcome of proceedings *which bear upon the case*, even if such proceedings are not necessarily controlling of the action that is to be stayed'") (emphasis added) (citation omitted); *Rivera v. Bowen*, 664 F. Supp. 708, 710 (S.D.N.Y. 1987) (because the "avoidance of duplicative litigation is imperative," a second action may not be maintained where the allegations and prayer for relief are the substantially similar to prior action); *Regions Bank*, 170 F. Supp. 2d at 440 ("the interests of judicial economy weigh in favor of staying the entire action" where a decision in the first-filed action may render a decision in the later-filed action unnecessary).

Here, Passlogix's pending summary judgment motion in the First-Filed Action bears directly on most – and likely all – of 2FA's claims in This Action. If Passlogix's summary judgment motion is granted (as Passlogix's believes it should be), 2FA's four identical claims in This Action – for breach of the License Agreement, breach of the covenant of good faith and fair dealing, unfair competition and misappropriation – would plainly be barred under principles of res judicata. *See Zherka v. City of New York*, No. 08 Civ. 9005, 2010 U.S. Dist. LEXIS 119699, at *12-17 (S.D.N.Y. Nov. 9, 2010) ("Once an issue of law or fact necessary to a judgment has

[2] Because 2FA's complaint in This Action includes new causes of action against Passlogix based on the same events in the First-Filed Action, those claims are also barred by Fed. R. Civ. P. 13. Rule 13 obligated 2FA to assert any counterclaim in the First-Filed Action that arose "out of the transaction or occurrence" that was the subject of Passlogix's initial pleading. Fed. R. Civ. P. 13(a)(1)(A). Any additional claim arising from conduct relating to the License Agreement and its four subsequent amendments is therefore procedurally barred.

been decided, the doctrine of collateral estoppel precludes the 'relitigation of [that same issue] in a suit on a different cause of action involving a party to the first case.'") (quoting *Burgos v. Hopkins*, 14 F.3d 787, 789 (2d Cir. 1994). And, because its remaining claims are all derivative of its counterclaims in the First-Filed Action and depend for their validity upon the existence of those claims, they would be barred as well. Because resolution of Passlogix's summary judgment motion in the First-Filed Action will have a binding and potentially dispositive effect on This Action, a stay is warranted here.[3]

Finally, 2FA's addition of Oracle as a party to This Action does not alter the analysis. "For a second action to be duplicative, it is not necessary that the parties be identical. Rather, if the parties 'represent the same interests' the court may determine the second action to be duplicative." *Howard*, 977 F. Supp. at 664. Indeed, courts routinely apply the first to file rule where there are non-identical parties between the two cases. *See, e.g., Howard*, 977 F. Supp. at 664 (granting stay where later case filed against partner of initial defendant); *DiGennaro v. Whitehair*, No. 09 Civ. 6551, 2010 U.S. Dist. LEXIS 110938 (W.D.N.Y. Oct. 19, 2010) (dismissing duplicative case where defendant in later-filed case was not named in the original suit, but was in privity with original defendants); *Regions Bank*, 170 F. Supp. 2d at 441 (staying entire action even where a defendant in the later-field action could not be joined as a party to the earlier case). There can be no question here that Oracle and its wholly-owned subsidiary, Passlogix, represent the same interests (they are now the corporate affiliates) and satisfy the

[3] Nor can 2FA rely on the fact that it is a counterclaimant (rather than the plaintiff) in the First-Filed Action as a means of opposing a stay of this action. "Whatever the procedure, the first suit should have priority, absent the showing of balance of convenience in favor of the second action." *Semmes Motors, Inc. v. Ford Motor Co.*, 429 F.2d 1197, 1202 (2d Cir. 1970) (internal quotations omitted) (citation omitted).

privity standard. Indeed, 2FA's claims against Oracle are wholly derivative of its claims against Passlogix.

Because This Action is duplicative of the First-Filed Action, in order to serve the interests of judicial economy and efficiency, the Court should stay This Action pending resolution of the First-Filed Action.

**POINT II**
**EACH OF THE SECOND CIRCUIT'S FIVE FACTORS SUPPORTS THE GRANT OF A STAY OF THIS ACTION**

When determining whether to grant a stay, courts in the Second Circuit may also consider five additional factors:

> (1) the private interests of the plaintiffs in proceeding expeditiously with the civil litigation as balanced against the prejudice to the plaintiffs if delayed; (2) the private interests of and burden on the defendants; (3) the interests of the courts; (4) the interests of persons not parties to the civil litigation; and (5) the public interest.

*Catskill Mountains*, 630 F. Supp. 2d at 304 (quotation and citation omitted). The underlying goal in evaluating these factors is to avoid prejudice. *Id*. Applying these factors, a stay is clearly warranted.

2FA does not have a legitimate interest in proceeding with This Action; rather, 2FA seeks vexatiously to multiply the litigation between the parties. But a "party who first brings an issue into a court of competent jurisdiction *should be free from the vexation of concurrent litigation over the same subject matter*, and an injunction should issue enjoining the prosecution of the second suit to prevent the economic waste involved in duplicating litigation which would have an adverse effect on the prompt and efficient administration of justice." *Nat'l Equip. Rental v. Fowler*, 287 F.2d 43, 46 (2d Cir. 1961) (emphasis added). This Action is merely the latest example in a pattern of conduct aimed at harassing Passlogix and its new owner, Oracle, and subjecting them to further legal expense.

It is the Court, and Passlogix and Oracle, that stand to suffer prejudice as a consequence of This Action. Specifically, absent the requested stay, the Court would expend even more valuable time on the duplicative litigation. *See Semmes Motors, Inc. v. Ford Motor Co.*, 429 F.2d 1197, 1203 (2d Cir. 1970) ("'Courts already heavily burdened with litigation with which they must of necessity deal should . . . not be called upon to duplicate [their] work in cases involving the same issues and the same parties.'") (quoting *Crosley Corp. v. Hazeltine Corp.*, 122 F.2d 925, 930 (3d Cir. 1941)).

Moreover, Defendants would have to respond to and litigate 2FA's duplicative claims – the same claims against which Passlogix has been defending for two years in the First-Filed Action. In the first instance, Defendants would likely move to dismiss some or all of the claims in This Action. The Court would then have to devote resources to that motion. Then, if any of This Action were to survive, Defendants would be forced to repeat the same discovery on the same facts and issues involved in the First-Filed Action (in which discovery has been closed for over a year). This would result in a substantial duplication of effort and proof and would be an unnecessary waste of time, money and resources, especially given Passlogix's pending motion for summary judgment in the First-Filed Action, which, if granted, will likely be dispositive of This Action.

Finally, the public interest also weighs in favor of a stay here because a stay will allow the Court to attend to other, non-duplicative matters. *See Catskill Mountains*, 630 F. Supp. 2d at 306 ("By conserving judicial resources, a stay will serve not only the interest of the courts, but also the interests of the Parties, the nonparties, and the public in an orderly and efficient use of judicial resources."). Accordingly, this Court should grant Defendants' application for a stay.

**CONCLUSION**

For all these reasons, Defendants respectfully request that the Court stay This Action pending disposition of the First-Filed Action.

Dated: January 31, 2011
New York, New York

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