UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

ASCENTIVE, LLC, *Plaintiff*, -*vs.*- OPINION CORP. d/b/a PISSEDCONSUMER.COM, et al., *Defendants*.	CIVIL ACTION NO. 1:10-CV-04433 - ILG - SMG
OPINION CORP., *Counterclaim Plaintiff*, -*vs.*- ASCENTIVE LLC, *Counterclaim Defendant*.	
CLASSIC BRANDS, INC., *Plaintiff*, -*vs.*- OPINION CORP. d/b/a PISSEDCONSUMER.COM, *et al*,. *Defendants*.	

DEFENDANTS' MEMORANDUM OF LAW IN OPPOSITION TO PLAINTIFFS' MOTION TO VOLUNTARILY DISMISS THEIR COMPLAINT WITHOUT PREJUDICE

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PRELIMINARY STATEMENT

As the Court has stated, this case, arising under the Lanham Act and the Racketeer Influenced and Corrupt Organizations Act ("RICO"), "exemplifies a new species of litigation spawned by the age of the Internet." The plaintiffs in this case are Ascentive, LLC ("Ascentive"), an Internet software company, and Classic Brands, LLC ("Classic") a mattress manufacturer. Ascentive and Classic ("plaintiffs") bring suit against Opinion Corp. and its officers Michael Podolsky ("Podolsky") and Alex Syrov ("Syrov") (collectively "defendants" or "PissedConsumer"), operators and owners of a consumer review website called www.PissedConsumer.com.

Nearly a year and a half ago, plaintiff Ascentive moved for a preliminary injunction pursuant to Fed. R. Civ. P. 65, asking this Court to take the extraordinary step of disabling PissedConsumer webpages containing negative reviews of its products on PissedConsumer.com. Ascentive contended that PissedConsumer's use of its registered trademarks in the web addresses of these pages, in the pages' metatags, in the text of the pages themselves, and in connection with advertising for competitors' products on these pages constituted trademark infringement, unfair competition, and false designation of origin. It also contended that PissedConsumer's offering of its Reputation Management Services amounted to extortion, bribery and other fraudulent behavior prohibited by RICO.

On December 13, 2011, Ascentive's motion for a preliminary injunction was denied, in a meticulously detailed 45-page opinion (the "Opinion"), the Court ultimately found that Ascentive had "established neither a likelihood of success on any of [its] claims nor sufficiently serious questions going to the merits of [its] claims to make them a fair ground for litigation." It is undeniable, therefore, that the Court's Opinion denying a preliminary junction has changed the landscape of this litigation – only not in the way Ascentive would have the Court believe.

What has **not** changed, contrary to Ascentive's arguments, is the state of the law governing Ascentive's claims. For this Court did not "make new law" in its Opinion. Nor has any shift occurred under the Lanham Act, Section 230 of the Communications and Decency Act, 47 U.S.C. § 230 ("Section 230"), or civil RICO law pursuant to 18 U.S.C. § 1962(c) and (d) since the Ascentive complaint was filed in September 2010. The Court simply applied well-established legal principles to deny Ascentive relief to which it could have never legitimately believed it was entitled. And it did so on the ground that Ascentive failed to demonstrate a likelihood of success on the merits of a single one of its claims even after a full evidentiary hearing, expedited discovery, and the submission of supplementary "proof" in support of its claim.

What **has** changed, however, is that now not even Ascentive can pretend that there is any justification for maintaining its transparently meritless lawsuit. Regrettably, Ascentive has learned only half of its lesson. Despite the Court's ringing condemnation of each and every one of its legal theories, Ascentive seeks to withdraw from the aggressive, damaging battle it has brought on so it may nurse its wounds and resuscitate its frivolous claims in the future. In all likelihood, it will do so at some point when its own litigation war chest has been refilled, or at a time or place seemingly more propitious for frivolous litigation than this District. Under the applicable legal standards, however, Ascentive's free ride courtesy of the judicial system should come to an end now. After nearly 18 months of intensive litigation, expansive discovery and expensive legal fees, defendants would be significantly prejudiced if this action is dismissed without prejudice, and for the all reasons set forth below this Court should deny their motion.

BACKGROUND

The procedural history of this case is laid out in detail in the Opinion issued by this Court, as well as the parties' prior submissions. Following the issuance of the Opinion on December 13, 2011, counsel for both Ascentive and Classic along with their clients convened in-person for a settlement conference at the offices of counsel for defendants on December 19th (Affirmation of Joel G. MacMull dated February 24, 2012 ("MacMull Affm.") ¶ 3.) Despite a lack of agreement as to settlement, Ascentive and defendants agreed to continue their discussions. (MacMull Affm. ¶ 3.)

Counsel for the parties subsequently convened before Chief Magistrate Judge Steven M. Gold on December 28th, wherein counsel for Ascentive and Classic announced their intention to file an interlocutory appeal of the Opinion. (MacMull Affm. at ¶ 4.) Chief Magistrate Gold ordered an additional briefing schedule in connection with the parties pending discovery motions. (MacMull Affm. ¶ 5.) Pursuant to Chief Magistrate Gold's order, on January 10, 2012 Ascentive and Classic submitted a joint letter advising that they would not file an interlocutory appeal. (MacMull Affm. ¶ 7.)

Meanwhile, Ascentive's counsel had contacted defendants' counsel on January 5th in the hope of renewing settlement discussions. (MacMull Affm. ¶ 6.) Defendants' counsel, who had been engaged in a trial in this District, responded on January 17th and Ascentive and defendants continued corresponding over the next few days through January 23rd in the hope of setting aside some time to have an additional productive settlement conversation. (MacMull Affm. ¶ 6.)

Suddenly, and without any advance notice at all from counsel for Ascentive beforehand (including any attempt to comply with the Individual Rules of Senior Judge I. Leo Glasser which specifically addresses procedures governing motion practice), Ascentive filed its Rule 41 motion on the afternoon of January 25th. (MacMull Affm. ¶ 8.) Ascentive's filing came as a complete

surprise to defendants, who, at least ostensibly, thought that Ascentive remained interested in arriving at a settlement agreeable to both sides in light of its counsel's apparent interest in wanting to coordinate time for an additional call.

Of note, Ascentive's Rule 41 motion came on the heels of its anticipated response date to defendants' motion to compel, pursuant to the order of Chief Magistrate Gold issued on December 28th. (MacMull Affm. ¶ 8.) On January 27th Ascentive filed its response to defendants' motion to compel, wherein it requested both an adjournment in responding more fully to defendants' motion to compel as well as the conference then currently scheduled for February 21st, which had initially been selected back on December 28th to accommodate Ascentive's counsel's schedule. (MacMull Affm. ¶ 10.) Defendants' subsequently opposed Ascentive's request for an adjournment on both scores later that day. (MacMull Affm. at ¶ 10.)

Chief Magistrate Gold implicitly denied Ascentive's request for an adjournment of the conference on February 17th, wherein the parties were ordered to appear on February 24th. (MacMull Affm. ¶ 10.) The parties' forthcoming conference was again rescheduled for March 7th on February 21st. (MacMull Affm. ¶ 10.)

LEGAL ARGUMENT

I. ASCENTIVE IS BARRED FROM BEING GRANTED A VOLUNTARY DISMISSAL UNDER RULE 41(a)(2)

As a threshold matter, the relief sought by Ascendant is, strictly speaking, not even available in light of defendants' pendant counterclaim. Rule 41(a)(2) states:

> If a defendant has pleaded a counterclaim before being served 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.

As applied, this Rule precludes any dismissal that would destroy subject matter jurisdiction over the counterclaim. *See, e.g., In re Solv-Ex Corp. Securities Litigation*, 62 Fed. Appx. 396, 2003

WL 1913165 (2d Cir. 2003), *cert. denied* 540 U.S. 877 (2003); *Buller v. Owner Operator Independent Driver Risk Retention Group, Inc*., 461 F. Supp. 2d 757 (S.D. Ill. 2006); 8 Moore's Federal Practice, § 41,40[8] (Matthew Bender 3d ed.). A voluntary dismissal is also barred where, as here, defendants' counterclaims are compulsory – being derived from the same set of operative facts as alleged in the complaint – thus requiring the court to retain jurisdiction over them in their own right. *See Bosteve Ltd. v. Marauszwki*, 110 F.R.D. 257, 259 (E.D.N.Y. 1986).

In this case, defendants' pending compulsory counterclaim is for breach of contract under New York law for an indeterminate amount of damages, a claim which on its face cannot be adjudicated by this Court except by virtue of pendant jurisdiction based on a pending federal claim. *See, e.g., Meding v. Receptopharm, Inc.*, 462 F.Supp. 2d 348 (E.D.N.Y.2006) (removal of action was promptly followed by remand to New York State Supreme Court on the ground that the complaint failed to allege the matter in controversy exceeded the jurisdictional amount of "$75,000, exclusive of interests and costs." (MacMull Affm. ¶ 16, Exhibit A.) Thus, Ascentive is precluded from dismissal of the complaint on its motion on this ground alone.

Under the circumstances here, however, it is appropriate to address the Court's range of options at this juncture. On the one hand, under *Gravatt v. Columbia University*, 845 F.2d 54, 56 (2d Cir. 1988), if the Court determines that it will grant the requested dismissals only with prejudice (which, as demonstrated below, equity would dictate here), Ascentive should be permitted to withdraw its Rule 41 motion and proceed with the litigation. On the other hand, a district court may dismiss **any** claim, regardless of the procedural posture of the moment, on a finding that it is frivolous, i.e., that "it lacks an arguable basis either in law or in fact as defined in *Neitzke v. Williams*, 490 U.S. 319 (1989). "[D]istrict courts are especially likely to be exposed to frivolous actions and, thus, have a great[ ] need for inherent authority to dismiss such actions

quickly in order to preserve scarce judicial resources." *Fitzgerald v. First East Seventh Street Tenants Corp*., 221 F.3d 362, 363-64 (2d Cir. 2000). Courts also have the inherent power to dismiss without leave to amend or replead in "extraordinary circumstances, such as where ... the substance of the claim pleaded is frivolous on its face...." *Salahuddin v. Cuomo*, 861 F.2d 40, 42 (2d Cir. 1988).

The record before the Court is compelling on the question of frivolousness, to an extent beyond what was already implied by the Opinion prior to this motion by Ascentive. That motion now places before the Court as patent an acknowledgment of the pointlessness and waste of judicial and litigant resources that can be imagined, as well as serious questions of good faith and candor before this tribunal. The implications of Ascentive's shameless request for a "never mind" withdrawal of its complaint after immense amounts of defendants' time, money and business opportunities have been squandered defending them cry out for the Court to examine closely whether all concerned should be relieved of further concern respecting these meritless claims.

It is nevertheless clear, however, that under Fed. R. Civ. P. 41(a)(2), the pendency of defendants' counterclaims is a complete bar to the relief Ascentive seeks here.

II. ASCENTIVE HAS FAILED TO MEET THE STANDARD FOR A VOLUNTARY DISMISSALS UNDER RULE 41(a)(2)

Abstracting from the issue of the counterclaim, voluntary dismissal without prejudice of a cause of action under Fed. R. Civ. P. 41(a)(2) is "not a matter of right," *Zagano v. Fordham University, 900 F.2d 12, 14 (2d Cir. 1990)*, and a district court is enjoined to exercise its discretion to prevent a voluntary dismissal from unfairly prejudicing a defendant. *See Fisher v. Puerto Rico Marine Mgmt., Inc.*, 940 F.2d 1502, 1503 (11th Cir. 1991) ("Rule 41(a)(2) exists chiefly for protection of defendants").

Zagano sets forth five factors to be considered in evaluating a motion for dismissal without prejudice under Rule 41(a)(2): (1) the plaintiff's diligence in bringing the motion; (2) any undue vexatiousness on the plaintiff's part; (3) the extent to which the suit has progressed, including the defendant's effort and expense in preparing for trial; (4) the duplicative expense of relitigation; and (5) the adequacy of the plaintiff's explanation for the need to dismiss. *See D'Alto v. Dahon California, Inc*., 100 F.3d 281, 283 (2d Cir. 1996) (district court must weigh *Zagano* factors). Ultimately, "the concern that often weighs most heavily with a court deciding whether or not to grant a Rule 41(a)(2) motion is whether the dismissal will substantially prejudice the defendants." *SEC v. The Oakford Corp*., 181 F.R.D. 269, 273 (S.D.N.Y. 1998).

As demonstrated below, based on these considerations the Court should have no difficulty in denying Ascentive's motion.

III. ASCENTIVE WAS NOT DILIGENT IN BRINGING THIS MOTION

Ascentive claims diligence in bringing its Rule 41(a)(2) motion based on its contention that it was filed "approximately 30 days after" the Opinion was issued on December 13th. (Ascentive Br. at 5) This argument is entitled to no credit – especially because the motion was filed **forty-two** days from the date Ascentive received the Opinion. The transmutation of "42" to "about 30" is not only a profound example of "fuzzy math," but it serves only to underline the cynical misrepresentation sought to be achieved by Ascendant's addled arithmetic of advocacy.

But if Ascendant intended, by this heavy-handed misrepresentation, to focus discussion on the elapse of time after the issuance of the Opinion, it will not succeed. The appropriate measure in determining diligence in such a situation is not the period after which a party finds out that its choice to roll the dice on a meritless claim has come up snake-eyes. Rather, the inquiry here must focus on the period of over a year between the filing of the complaint and the

filing of this motion, and the significant events that transpired in the interim that should have prompted Ascentive to acknowledge the fruitless nature of pursuing this litigation far earlier. Thus, for example, in *United Van Lines v. Solino*, 153 Fed. Appx. 46 (2d Cir. 2005), the Second Circuit held that the district court did not abuse its discretion in denying a Rule 41(a)(2) motion where the claims had been pending for almost five months, some discovery had occurred and the Court had decided multiple discovery motions in addition to presiding over a conference. In that situation, which is easily exceeded here, the Court held that the interests of judicial economy and avoiding prejudice to the employer-defendant required claimant to see its claims through resolution or suffer dismissal with prejudice.

Similarly, in *Pacific Electric Wire & Cable Co., Ltd. v. Set Top Int'l Inc.*, 2005 WL 578916, *5 (S.D.N.Y. March 11, 2005), Judge Keenan rejected as "too late" a Rule 41(a)(2) motion brought only two and a half months after the supposedly precipitating event. Courts routinely find a lack of diligence based upon delays far shorter than two years. *See also, Fisher v. Puerot Rico Marine Mgmt., Inc.*, 940 F.2d 1502, 1503 (11th Cir. 1991) (affirming denial of voluntary dismissal in part where appellant filed Rule 41(a)(2) motion "over a month after the latest date on which she might have discovered the information that supported these motions"); *Soul Circus v. Trevanna Entertainment*, 249 F.R.D. 109, 110 (S.D.N.Y. 2008) (finding plaintiff not diligent that did not seek dismissal without prejudice until months after "the main thrust of the case" disappeared); *Pizzulli v. The Northwestern Mutual Life Ins. Co.*, 2006 WL 490097, at *2 (S.D.N.Y. Feb. 28, 2006) (finding counterclaim plaintiff "has not been diligent" in making Rule 41(a)(2) motion three and a half months after initial pre-trial conference).

Here, Ascentive not only waited more than two years after filing its meritless claims to bring this motion (which alone justifies its denial), but every fact underlying Ascentive's claimed

rationale was known to it, or should have been known to it, when it instituted this litigation. Ascentive's argument that "[a]fter the denial of Ascentive's motion for preliminary injunction, it reassessed the costs of pursuing this action, and has determined that it is not in its best economic interests to proceed" (Ascentive Br. at 2) is an implied admission that no operative facts or law changed since **before** it ever filed its case, but that it simply wants to cut its losses after losing its big motion. Whatever such a stop-the-bleeding measure might be, "diligence" as applied in this context is not the word for it.

Ascentive must also be presumed to know the law. For example, if defendants' status as an Internet service provider under Section 230 left Ascentive with no basis to assert its state-based tort claims under New York law, Ascentive should have been aware of that before it filed its complaint in September 2010, and certainly before it sought a permanent injunction on those same grounds in November 2010.

Moreover, even during the intervening forty-two days between the issuance of the Opinion and the filing of this motion, the parties conducted additional settlement discussions, appeared in person before Chief Magistrate Gold, and negotiated and adopted a further briefing schedule in connection with the parties' pending motions to compel – following which defendants invested scores of hours preparing their submissions for a motion Ascentive had already "decided" would never be heard (MacMull Affm. ¶¶ 3-10.)

In light of the above, Ascentive cannot be found to have acted with diligence. All the relevant facts and law were known to it before it ever filed its action, and yet it went forward nevertheless. And even when it learned that its desired relief was denied, it inexplicably delayed another forty-two days in bringing its motion.

IV. ASCENTIVE'S CONDUCT HAS BEEN UNDULY VEXATIOUS

An unjustified delay in bringing a Rule 41(a)(2) motion has been held to be "unduly vexatious." In *SEC v. The Oakford Corp.* 181 F.R.D. 269 (S.D.N.Y. 1998), Judge Rakoff wrote:

> By making no motion for stay or dismissal at the May 22 conference and, instead, expressly participating in the scheduling of full discovery, the SEC gave the Court and parties every reason to believe that it had elected the latter alternative. Only after the D'Alessio defendants had filed their Answers and prepared their responses to the SEC's own discovery requests did the SEC, facing the scheduled deadline for furnishing its own discovery to those defendants, turn about and bring the instant motion. It follows that the SEC not only failed to act with diligence but also engaged in "undue vexatiousness."

Id. at 271.

Here too Ascentive's unjustified delay in making the instant motion, and its attempt to obtain the unconditional relief it seeks demonstrates undue vexatiouness. In fact, from the inception of this action Ascentive has engaged in vexatious behavior. In offering its innocence to the Court, plaintiff has apparently forgotten – or chosen to ignore – just some of the following:

- Its "Thanksgiving Eve" filing of its preliminary injunction motion on November 23, 2010, made more than two-months after it initially filed its Complaint. (MacMull Affm., ¶¶ 11, 17, Exhibit B);
- Its repeated disregard of this Court's Individual Rules and Practices, and consistent refusal to communicate its intent to file motions and arrange briefing schedules with defendants in advance of its filings. Ascentive has elected to "surprise" defendants on no fewer than three separate motions, including this one. (MacMull Affm. ¶ 11); and
- Its repeated failure to provide defendants with documents it intended to rely on in advance of multiple hearings held before this Court, including after it had been previously admonished by this Court for tactics the Court described as "litigation by ambush." (MacMull Affm. ¶ 11, Exhibits B and C.)

Defendants have all along maintained that Ascentive's motivation in bringing this action against them was to harass them and place on them the huge financial burden associated with litigation in the hope of achieving an outcome which provides for no legal remedy. (Opinion at 44-45.) This of course is quintessential vexatious behavior; as the Court held in *Zagano*.

The application of the rule enunciated in *Oakford* to the instant case is clear. As in *Oakford*, the record here makes clear that Ascentive improperly assumed that its actions would be stayed in order to shield itself from the scrutiny associated with defendants' discovery requests. All the relevant facts relating to Ascentive's prior unlawful conduct as alleged by the State of Washington, and which serves as near complete defense to its claim for damages against these defendants, were known to it well in advance of the filing of its complaint in September 2010. More specifically, the State of Washington served Ascentive and its Chief Executive Officer, Adam Schran, with a Civil Investigative Demand for Answers to Interrogatories and Requests for Production of Documents on April 27, 2009 arising from Ascentive's unfair consumer practices. (MacMull Affm., ¶ 19, Exhibit D.) But the State of Washington's pursuit of Ascentive for a year and a half before it filed suit against these defendants did nothing to deter it. And it certainly did nothing to curb Ascentive's then apparent appetite for more discovery in support of it frivolous claims when it served defendants with two sets of interrogatories and two requests for the production of documents between November 23, 2010 and June 2011, and most recently sought to join its co-plaintiff Classic on December 1st, 2011 in compelling additional discovery from defendants. (MacMull Affm. ¶ 5.)

Even after the date of the Opinion on December 13th, and fully aware that defendants were in the midst of reviewing thousands of documents and making motions to compel other discovery, Ascentive sat idle for another six weeks before it made its motion, giving the

appearance to defendants that it intended to engage in settlement negotiations. (MacMull Affm. at ¶¶ 3,6 and 8.) On these independent bases, Ascentive's conduct is plainly vexatious.

Ascentive's request for a dismissal without prejudice here is compelling in that in bringing this action and thereafter refusing to dismiss it with prejudice, Ascentive was not motivated by a rational belief that it would recover monetary damages that it has allegedly suffered, and which at no point in the litigation was it able to enunciate coherently. Rather, such behavior smacks of the undue vexatiousness with which Ascentive has prosecuted its meritless claims from the beginning. This factor, therefore, weighs heavily in favor of denying Ascentive's motion.

V. THE LITIGATION HAS PROGRESSED SIGNIFICANTLY

Ascentive's contends that this action has "not progressed" because "little discovery" has been conducted thus far. (Ascentive Br. at 5; Fletman Decl. ¶ 3.) This characterization is preposterous, ignoring as an initial matter the two days defendants devoted to Ascentive's preliminary injunction hearing in December 2010, the submissions filed in preparation for these hearings and the supplemental papers submitted thereafter at the Court's request, and the "urgently"-needed expedited discovery ordered by the Court in the initial stages of this litigation.

Indeed, if they mean anything by asserting that "little discovery" has taken place, Ascentive seems to mean that they have made little discovery. Having had the benefit of extensive disclosure by defendants – and having nothing substantive to show for it in terms of justifying its frivolous lawsuit – now, Ascentive argues, is the time to just "forget about it" – now, before Ascentive is exposed to a likely adverse ruling with respect to its months of stonewalling on disclosure.

Indeed, it is impossible not to imply from the timing of its motion that Ascentive hopes that an adjournment from this Court on defendants' pending discovery motion would alleviate its burden to support its claims in the face of an adverse ruling, which defendants opposed for good reason. (MacMull Affm. at ¶ 10.) But a motion to dismiss without prejudice is not the proper vehicle for a party to overcome an adverse order. *See Barksdale v. Onondaga County Sheriff's Dep't*, 2000 WL 804643 (N.D.N.Y. June 12, 2000) ("Dismissal without prejudice should not be allowed simply to relieve plaintiffs of the effects of ... an adverse order."); *Greguski v. Long Island R.R.*, 163 F.R.D. 221, 224 (S.D.N.Y. 1995) (denying Rule 41(a)(2) dismissal where plaintiff attempted to use motion to circumvent an adverse ruling); *In re Exxon Valdez*, 102 F.3d 429, 432 (9th Cir. 1996) (affirming denial of motion to dismiss where district court characterized motion as "thinly-veiled attempts to avoid discovery"); *Phillips v. Illinois Central Gulf Railroad*, 874 F.2d 984 (5th Cir. 1989) (noting that "a dismissal without prejudice should not be granted ... when the plaintiff's purpose is so to maneuver the litigation that the defendant will lose his existing advantage"). Ascentive's effort to take its litigation ball and go home as it contemplates an adverse ruling is another aspect of the vexatious approach it has employed in this matter. But it should hardly be rewarded for avoiding discovery by a finding that "little discovery" has occurred in this case.

In fact, all relevant documents in defendants' possession or control were served months ago. Mr. Podolsky as Opinion Corp.'s Rule 30(b)(6) witness was questioned extensively at his deposition in December 2010. And all this is to say nothing of the countless emails and hours spent drafting, reviewing and responding to Ascentive's four separate, and wide-ranging, discovery demands, including reviewing and preparing responsive documents. (MacMull Affm. ¶ 13.) Undeniably, there has been extensive discovery concerning the allegations in Ascentive's

complaint, even if depositions (originally scheduled for many months ago but repeatedly postponed at plaintiffs' request) have not progressed in this case. Consequently, any additional discovery beyond that which remains the subject of the parties' currently pending motions to compel will likely be limited to a handful of depositions.

Where, as here, a case has progressed to the point where a determination on the merits is imminent, voluntary dismissal without prejudice is not appropriate. In *D'Alto v. Dahon California, Inc.*, 100 F. 3d 281 (2d Cir. 1996), a case cited by Ascentive but which provides no support for its motion, the Second Circuit held that voluntary dismissal without prejudice is inappropriate when, as here:

> the cause has proceeded so far that the defendant is in a position to demand on the pleadings an opportunity to seek affirmative relief and he would be prejudiced by being remitted to a separate action. Having been put to the trouble of getting his counter case properly pleaded and ready, he may insist that the cause proceed to a decree.

Id. at 283 (citations omitted.) As in *D'Alto*, this case has proceeded much too far for a voluntary dismissal without prejudice to be appropriate, particularly given the current state of discovery, and the additional grounds upon which the case should be dismissed in light of the Opinion, all of which are abundantly clear.

VI. DEFENDANTS' EXPENSES EXPENDED IN DEFENDING THIS MATTER HAVE BEEN SIGNIFICANT

Tellingly, Ascentive's papers are entirely silent regarding one of the most obvious issues any court must consider when evaluating prejudice to the non-moving party on a motion under Fed. R. Civ. P. 41(a)(2): the money it has spend defending itself against the claims a plaintiff no longer considers worth pursuing. Courts have routinely found the expense factor to weigh in favor of denying a Rule 41(a)(2) motion in circumstances where far less preparation has occurred. *See Shabazz v. PYA Monarch, LLC,* 271 F. Supp. 2d 797, 800 (E.D. Va. 2003)

(expense factor weighed in favor of denying Rule 41(a)(2) motion where defendant had prepared and filed removal papers, filed responsive pleadings, prepared and served initial disclosures, conducted witness interviews, performed preliminary legal research, attended scheduling conference, prepared and served interrogatories and document requests, served two notices of deposition, and filed a motion to compel discovery); *Teck v. Gen P'ship v. Crown Cent. Petroleum Corp.*, 28 F. Supp. 2d 989, 991 (E.D. Va. 1998) (denying Rule 41(a)(2) motion based on defendant's removal of action, answering of complaint, answering of interrogatories and requests for admission, serving interrogatories, filing two motions to compel, and filing motion to strike plaintiff's expert witness); *Holbrook v. Andersen Corp.*, 130 F.R.D. 516, 520 (D. Me. 1990) (denying Rule 41(a)(2) motion where defendant spent $50,000 to $60,000 on discovery and pre-trial preparation).

The reason for this omission is obvious: The answer is a compelling riposte to Ascentive's motion. Cutting to the chase, to date, defendants' direct legal expenses in this matter have exceeded $200,000. (Affirmation of Michael Podolsky, dated February 23, 2012 ("Podolsky Affm.") ¶ 16; *see also* MacMull Affm. ¶ 13.) The scope of work includes document collection, organization, and the review of thousands of pages of documents obtained not only from Ascentive, but from the many non-parties subpoenaed by Ascentive and defendants. In addition, defendants have borne significant expense in meeting their discovery obligations to Ascentive, which, again, has included responding to multiple requests for the production of documents and interrogatories and production of responsive documents, many of which have had to be reviewed on multiple occasions for the application of redactions, and then again when Ascentive challenged defendants' redactions and lost. (Poldolsky Affm. ¶¶ 9,11; MacMull Affm. ¶ 13.)

Furthermore, in response to Ascentive's request that defendants provide a rolling production of documents it received from third parties, defendants have made several separate productions to Ascentive, encompassing thousands of pages of documents.

In addition, as the Court is well aware, defendants' have devoted substantial effort to discovery and procedural disputes. These disputes have included: (1) defendants' successful opposition to Ascentive's untimely motion for a preliminary injunction, including the successful opposition to its motion to further supplement the record; (2) defendants' demand that Ascentive meet its obligation to further supplement its discovery responses in light of the Court's rulings on June 3, 2011; (3) defendants' pending motion to compel Ascentive to produce additional documents and furnish defendants with appropriate privilege logs (which has entailed extensive correspondence, briefing to the Court, and will be followed by oral argument) and (4) the current Rule 41 motion.

In all, defendants' counsel has expended over 600 hours defending against Ascentive's spurious allegations at a cost in excess of $200,000.00 in attorneys' fees.[1] (Podolsky Decl. ¶ 16; MacMull Affm. ¶ 13.) This factor, therefore, clearly weighs against a voluntarily dismissal without prejudice pursuant to Rule 41(a)(2).

[1] During a telephonic conference before Chief Magistrate Gold on March 7, 2011, the parties agreed that the Ascentive and Classic cases should be consolidated for all purposes. Chief Magistrate Gold found that consolidation of the two cases was proper pursuant to Rule 42(a) of the Fed. R. of Civ. P. The cases were consolidated for all purposes on March 8, 2011. (*See* Minute Entry dated March 8, 2011). Accordingly, since March 8, 2011a percentage of the fees identified above have been incurred in connection with legal work performed in the Classic litigation. At this time, defendants do not seek the recovery of fees expended in connection with Classic's litigation from Ascentive. However, following the Court's entry of an Order on this Rule 41 motion, defendants intend to submit further evidence setting forth defendants' fees and costs expended as they relate to the Ascentive litigation only, and to the extent that such records exist. (MacMull Affm. ¶¶ 13-15.)

VII. DEFENDANTS WOULD FACE LARGE DUPLICATIVE EXPENSES IN ANY EVENTUAL RESUMPTION OF THE LITIGATION

Even if granted the relief Ascentive seeks here, resumption of the litigation is a high risk, given the history here. Plaintiff's obvious animosity toward defendants personally is evident from the complaint itself. It is telling that Ascentive refused even to dismiss its claims with prejudice – **any** of them – against the individual defendants following the Opinion and despite the compelling absence of factual or legal basis to maintain them.

If the instant Rule 41 motion were granted and Ascentive later re-filed its complaints against defendants, defendants would have to incur large expenses to duplicate the work already done in these cases, despite Ascentive's blithe assertion that much of the work that has been done could be utilized in a future litigation. (Ascentive Br. at 6.) There are several reasons for this. First, under the Stipulated Protective Order entered in this action, if this case were dismissed, defendants would be obliged to return or destroy all "Confidential" or "Attorneys' Eyes Only" documents already obtained through discovery. (MacMull Affm. ¶ 20, Exhibit E at ¶ 23.) Well over 75% of Ascentive's entire document production to date has been marked either "Confidential" or "Attorneys' Eyes Only." (*See* D.E. 69 at pp. 8) (discussing 47% of Ascentive's total document production inappropriately marked as "Attorneys' Eyes Only.") Although defendants have consistently maintained that these designations have been abused by Ascentive, if the case were dismissed on this motion the presumptive status of those designations would govern.

Secondly, even if an agreement could be reached to allow defendants to store (rather than return or destroy) the thousands of documents produced to date, the facts, and the key documents are fresh in the minds of counsel and witnesses now. Defendants would incur enormous and

unfair additional expense if their attorneys – whoever and wherever they might be – would have to familiarize or refamiliarize themselves with this voluminous record.

VIII. ASCENTIVE HAS NO ADEQUATE EXPLANATION FOR SEEKING VOLUNTARY DISMISSAL AT THIS JUNCTURE

Most significantly, Ascentive's explanation for seeking dismissal without prejudice at this juncture, i.e., the denial of Ascentive's motion for preliminary relief, is a charade.

As noted above, the timing of Ascentive's Rule 41 motion could not be more conspicuous. Ascentive hopes to avoid its obligation of producing additional documents that, at the very least, will serve to demonstrate that its claim of damages have always been remote and that, as a result, this case provides a basis for an "exceptional case" finding under the Lanham Act – or possibly even more severe sanctions.

Indeed, even if Ascentive's assertion that this Court's denial of a preliminary injunction has caused Ascentive to "reassess[ ] the costs of pursuing this action, [such that it] has determined that it is not in its best economic interests to proceed," the current circumstances, as discussed above, cannot come as a surprise to Ascentive. (Ascentive Br. at 2.) Ascentive brought this case against defendants with the full knowledge (or knowledge chargeable to its attorneys) that there were no legal grounds for the relief it sought. Waiting several months before asserting its allegations of "irreparable harm" for the first time after it filed its complaint, Ascentive proffered nothing in the way of credible evidence to support its allegations of a likelihood of confusion: No expert's report; no consumer survey evidence; "no there there." In fact, Ascentive's "surprise" motion to supplement the record, which raised facts available to it for months and which was filed out of compliance with this Court's rules months after its initial preliminary injunction application, added nothing in the way of a single, impartial piece of evidence in support of its allegations. (MacMull Affm. ¶ 11.)

Thus, Ascentive could not have been surprised by the outcome of the Opinion. And it is abundantly clear that Acentive does not have a legitimate explanation for its need to dismiss this action without prejudice, and on this basis alone, its motion should be denied.

Additionally, a balancing of the equities is even more compelling grounds to deny Ascentive's motion. Plaintiff suggests that it "has determined that it is not in its best economic interests to proceed." (Ascentive Br. at 2 citing Schran Dec. ¶¶ 2-3.) But if its allegations of irreparable harm were ever bona fide – Ascentive has submitted nothing to suggest otherwise – its new assertion is incredible. Ultimately, Ascentive either lied to this Court when it asserted (including in sworn testimony) that it was suffering irreparable harm arising from defendants' actions, or it is lying to the Court now when it says it is not all that important to stop that activity.

It is an offense to equity to permit Ascentive to disavow prosecution of its "irreparable harm" claims, which it addressed to this Court's equitable powers, on pretextual grounds and absent any credible explanation for "what happened" to that previously intolerable harm. Nor is there any justice in preserving for Ascentive the right to return to equity in the future to assert claims so lacking in merit or even, at this stage, the color of credibility. Such an outcome is inequitable to the defendants, to the judicial system and to the law that Ascentive has so casually abused in its unsuccessful attempt to silence public criticism of its operations by punishing defendants for publishing them.

IX. DEFENDANTS WOULD BE SEVERELY PREJUDICED BY DISMISSAL OF THE COMPLAINT WITHOUT PREJUDICE

The prejudice to defendants from dismissal without prejudice at this time is plain – they would lose the one remaining forum in this coordinated extortion campaign in which to clear their name and develop their business free from the threat a meritless suit by plaintiff.

Courts routuinely deny Rule 41(a)(2) motions where dismissal of the claims without prejudice would threaten a defendant's economic opportunities. For example, in *Deere & Co. v. MTD Holdings, Inc*., 2004 WL 1432554, at *2 (S.D.N.Y. June 24, 2004) a defendant accused of trademark and trade dress infringement by selling riding lawnmowers painted yellow and green discontinued its manufacture of the allegedly infringing products during the pendency of the trial. The plaintiff then filed a Rule 41(a)(2) motion, explicitly holding open the likelihood of renewed litigation if the defendant resumed manufacture of the allegedly infringing products. The *Deere* court denied the motion on the ground that "operating a business under the constant threat of litigation" constituted legal prejudice and that the defendant "should know whether these products have infringed upon Deere's trademarks and trade dress, and if not, should be free to manufacture these products should it choose to do so." *Id.* Here, too, defendants are entitled not to operate under the cloud of an ongoing litigation threat by Ascentive, worrying about being served with new papers regurgitating its discredited – but still unadjudicated – litigation claims whenever Ascentive decides that its finances, forum-arbitrage considerations or management preferences see fit to unleash them.

Similarly, in *Paulucci v. City of Duluth*, 826 F.2d 780, 783 (8th Cir. 1987), the Eighth Circuit affirmed the denial of a Rule 41(a)(2) motion in a case regarding condemnation of plaintiff's property for economic development, holding that the defendant would have been prejudiced by the proposed dismissal because "future litigation asserting this claim [of improper condemnation] would generate uncertainty about title to the land and possibly jeopardize the development of the project." *See Ferguson v. Eakle*, 492 F.2d 26, 29 (3rd Cir. 1974) (affirming denial of Rule 41(a)(2) motion in litigation over title to real estate and holding that the "most important" prejudice was "the non-financial prejudice reflected by the uncertainty over

[defendants'] title to the bay front property").[2] Here too, since the commencement of this action the individual defendants have forgone additional economic opportunities believed to be worth thousands of dollars. (Podolsky Affm. ¶¶ 13-15.)

Second, depriving defendants the opportunity for exoneration respecting Ascentive's claims would deprive them of their opportunity to bring not only this action to a prompt conclusion, but to avoid innumerable copycat lawsuits likely to be brought on similar grounds. Since Ascentive filed this lawsuit defendants have been regularly served and threatened with litigation by parties across the country who parrot Ascentive's outrageous allegations and "creative" claims of civil RICO violations. (MacMull Affm. ¶ 12.) The deterrent effects of allowing Ascentive's claims to proceed to a final adjudication would give valuable pause to other parties seeking to silence public criticism of their operations through litigation, benefiting not only defendants but the public interest.

X. THE COURT SHOULD CONSIDER FAIR TERMS AND CONDITIONS OF DISMISSAL

A court may include terms and conditions in its order granting voluntarily dismissal in order to prevent prejudice to a defendant. *See In re FEMA Trailer Formaldehyde Products Liability Litigation*, 628 F.3d 157, 163 (5th Cir. 2010). The purpose of such conditions is to avoid prejudice to the nonmoving party. *See Bridgeport Music, Inc. v. Universal-MCA Music Pub., Inc.* 583 F.3d 948, 953 (6th Cir. 2009). Conditions of dismissal may be proposed by the parties or *sua sponte* by the court. *See Brown v. Baeke*, 413 F.3d 1121, 1123 (10th Cir. 2005).

[2] Ascentive will respond with citations to case law which will argue that a litigant cannot be forced to prosecute an action in has no interest in pursuing. This may be true in some contexts, but is irrelevant under the Second Circuit's *Zagano* mandatory factors for dismissals under Rule 41(a)(2) or where, as here, the defendants are individuals deprived of employment opportunities, rather than corporations.

If this Court were at all inclined to grant Ascentive's motion for a dismissal without prejudice, over defendants' objection and opposition, and notwithstanding the complete procedural bar to its relief as noted above, an award of attorneys' fees and costs as well as the production of additional discovery materials currently in dispute is appropriate, as demonstrated below.[3]

1. The Court Should Award Defendants Their Attorneys' Fees

The district court has discretion to grant a monetary award as part of the "terms" of a Rule 41(a)(2) dismissal. *See USA v. Cathcart*, 291 Fed. Appx. 360, August 27, 2008, citing *Cassuto v. Comm'r*, 936 F.2d 736, 740 (2d Cir. 1991). To that end, courts often grant fee awards when a plaintiff dismisses a suit **without prejudice** under Rule 41(a)(2). *See Colombrito v. Kelly*, 764 F.2d 122, 133 (2d Cir. 1985); 9 C. Wright & A. Miller, *Federal Practice & Procedure*: Civil 2d § 2366, at 305–06 (1995). "The purpose of such awards is generally to reimburse the defendant for the litigation costs incurred, in view of the risk (often the certainty) faced by the defendant that the same suit will be refiled and will impose duplicative expenses upon him." *Colombrito*, 764 F.2d at 133 (citations omitted). Typically, both attorneys' fees and costs are included in an award of fees. *See e.g., Hinfin Realty Corp. v. The Pittston Co.*, 212 F.R.D. 461, 462 (E.D.N.Y. 2002) citing *Colombrito*, 764 F.2d at 133; *Mercer Tool Corp. v. Friedr. Dick*, 179 F.R.D. 391, 397 (E.D.N.Y. 1998) (awarding fees despite finding no evidence of bad faith or vexatiousness).

Accordingly, if the Court is inclined to grant plaintiff's motion, defendants will certainly incur duplicative expenses, or at least the threat of those expenses, in the event that Ascentive decides to refile its claims in another forum. Plaintiff may believe it to be advantageous to "start

[3] Defendants' motion to compel additional discovery from Ascentive is currently pending before Chief Magistrate Gold. (MacMull Affm. ¶ 5.)

fresh" in another jurisdiction, perhaps recasting its claims a second time to circumvent any biding effect of the Opinion. If defendants were forced to defend these claims a second time in a different forum, before a judge who in unfamiliar with the protracted history of this case, defendants would certainly suffer additional and unfair prejudice.

For this reason defendants respectfully request that this Court condition any dismissal **without prejudice** upon the issuance of an order providing: (1) an award of attorneys' fees and costs; (2) that Ascentive be barred from refiling these or substantially similar claims in an action against these defendants in the Eastern District of New York unless it first receives permission from this Court; and (3) that any such action filed in another federal District or state court include a copy of the Opinion and of such order as exhibits to the pleadings along with appropriately candid and complete explanation of the same.

2. Any Dismissal Of Ascentive Should Be Conditioned On Its Providing Proper Responses To Defendants' Pending Discovery Demands

One of the many conditions of dismissal that may be imposed by a court is a requirement that specified documents and interrogatories responses be produced prior to any final resolution or dismissal. *See In re Vitamins Antitrust Litig.*, 198 F.R.D. 296, 305 (D.D.C. 2000) (dismissal conditioned on plaintiff responding to document requests and interrogatories). Here, defendants have already briefed the issue of their entitlement to certain discovery from Ascentive, which, at present, remains a matter to be resolved at the parties' forthcoming hearing before Chief Magistrate Gold, currently scheduled for March 7, 2012. (MacMull Affm. at ¶ 10.) Much of the disclosure resisted by defendants goes directly to the bona fides Ascentive would have possessed at the time it filed suit against defendants, considering that the State of Washington's investigation of Ascentive and Adam Schran was well underway for approximately a year and a half before Ascentive filed its case against these defendants.

Thus, Ascentive's discovery responses remain relevant for the same reasons that defendants stated back on February 10, 2012:

> In light of this Court's December 13th opinion denying Ascentive's request for a preliminary injunction, followed by Acentive's filing of its motion to dismiss its complaint pursuant to Rule 41(a)(2), defendants believe they now constitute a "prevailing party" within the meaning of Section 35 of the Lanham Act and for purposes of 28 U.S.C. § 1927 and Rule 11. As in the context of awards of fees to plaintiffs, courts have recognized two sets of circumstances under which relief is appropriate for defendants: (1) a complete lack of merit to the plaintiff's claims; and (2) abusive litigation tactics by the plaintiff. *See, e.g., IMAF, S.P.A. v. J.C. Penny Co.*, 810 F. Supp. 96, 100 (S.D.N.Y. 1992); *Diamond Supply Co. v. Prudential Paper Prods. Co.*, 589 F. Supp. 470 (S.D.N.Y. 1984) (awarding fees based on finding that plaintiff's claims were "patently baseless"). Importantly, a defendant's fees have even been awarded in instances where a plaintiff advanced a prima facie allegation in a well-pleaded complaint, but the allegations were held to "lack[ ] a solid legal foundation." *IMAF, S.P.A.*, 810 F. Supp. at 100. Fees have also been awarded where it was apparent that a plaintiff failed to conduct adequate factual research into the basis of its claims. *See, e.g., Viola Sportswear v. Mimun*, 574 F. Supp. 619 (E.D.N.Y. 1983).
>
> Here, the documents requested pertaining to the State of Washington's Attorney General's investigation as well as other documents may further evidence any number of the foregoing, thereby making Ascentive's production eminently relevant to defendants' continued prosecution of this action.

(*See* D.E. 82 at 2).

Additional discovery from Ascentive will also likely reveal facts further demonstrating defendants' entitlement to attorneys' fees under the "exceptional case" provision of § 35(a) of the Lanham Act based on Ascentive's bad faith. *See Nike, Inc. v. Already, LLC*, 663 F.3d 89, 99 (2d Cir. 2011). The fact that Ascentive was aware of consumer complaints against it, which defendants understand led to the State of Washington's investigation of Ascentive and Adam Schran in April of 2009 may reveal Ascentive's "bad faith" in later bringing suit against defendants in September 2010. For these reasons, a grant of Ascentive's motion to voluntary dismiss its Complaint without prejudice should be predicated on its production of discovery as set forth in defendants' motion to compel.

CONCLUSION

For all the foregoing reasons, this Court should deny Ascentive's motion to be permitted to voluntarily dismiss its complaint without prejudice pursuant to Rule 41(a)(2) or, in the alternative, the Court should make any such dismissal contingent on Ascentive's fulfillment of the conditions set forth above.

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