

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA**

CASE NO. 17-60925-CIV-ALTONAGA/Goodman

CHEYTAC USA, LLC,

Plaintiff,

v.

**NEXTGEN TACTICAL, LLC and
DENNIS OMANOFF,**

Defendants.

ORDER

THIS CAUSE came before the Court on Defendants, NextGen Tactical, LLC and Dennis Omanoff’s Motion to Dismiss Second Amended Complaint [ECF No. 89], filed August 10, 2017. Plaintiff, CheyTac USA, LLC, filed its Response [ECF No. 96] on August 21, 2017, to which Defendants filed their Reply [ECF No. 99] on August 28, 2017. The Court has considered the parties’ written submissions, the record, and applicable law.

Plaintiff is a Georgia limited liability company, specializing in the development and design of “patented balance control flight projectiles (bullets) and high caliber tactical rifles.” (Second Amended Complaint [ECF No. 88] ¶¶ 1, 24). Defendant Omanoff is the former Chief Executive Officer of CheyTac, and now managing member of Defendant NextGen Tactical, LLC. (*See id.* ¶¶ 26, 55). All of Nextgen’s members are “former high-level” Cheytac employees. (*Id.* ¶ 3).

By way of brief background, CheyTac has been manufacturing high caliber rifles and ammunition since 2011. (*See id.* ¶ 32). Plaintiff’s “most award-winning” products

are the M200 and M300 intervention rifles and .375CT and .408CT ammunition; and it is these products which form the basis for this suit. (*Id.* ¶ 4). With respect to its ammunition, Plaintiff is the owner of U.S. Patent No. 6,629,669, entitled “Controlled Spin Projectile.” (*See id.* ¶ 5). This method “impart[s] optimal spin on CheyTac ammunition.” (*Id.* (alteration added)). CheyTac products are widely recognized and used by military and law enforcement agencies around the world. (*See id.* ¶ 1).

Plaintiff “expends substantial time, resources[,] and expense developing confidential business information, trade secrets, and intellectual property.” (*Id.* ¶ 33 (alteration added)). Plaintiff’s business relies heavily on the protection of its trade secrets and intellectual property. (*See id.*). Among its trade secrets are proprietary ballistics and rifle barrel designs, customer lists, email, and records. (*See id.* ¶¶ 39, 42). Reproducing CheyTac designs would require a substantial amount of resources and time “to reverse engineer and replicate the advantages provided by the trade secrets in CheyTac” products. (*Id.* ¶ 41). Omanoff, as Plaintiff’s former CEO, had access to all of CheyTac’s proprietary information. (*See id.* ¶ 40).

In addition to the trade secrets and ‘669 Patent, CheyTac owns the word marks “CHEYTAC” and “SEIZE THE DISTANCE” for use in connection with “all types of firearms and ammunition including long range sniper rifles and patented ammunition.” (*Id.* ¶¶ 49–50). CheyTac has filed a trademark application for the word mark “CHEYTAC USA,” and has acquired trade dress rights in the design and appearance of the M200 and M300 rifles and mountable bipod. (*See id.* ¶¶ 52–53). Finally, Cheytac has acquired common law rights in “.408CT” and “.375CT.” (*Id.* ¶ 54).

Omanoff was appointed CheyTac CEO, and in September 2015 he executed a

Proprietary Rights Agreement with CheyTac. (*See id.* ¶ 11; *see also* Complaint,¹ Ex. 9, Proprietary Rights Agreement [ECF No. 1-1] 64–72). The PRA contains non-solicitation, non-competition, and arbitration provisions.² (*See* 2d Am. Compl. ¶ 12; *see also* PRA §§ 7–8, 14). Omanoff also owned several million shares of CheyTac stock during his tenure and was a party to the CheyTac Operating Agreement. (*See* 2d Am. Compl. ¶¶ 11, 13–15; Compl., Ex. 8, Operating Agreement [ECF No. 1-1] 34–62). As in the PRA, the Operating Agreement contains a provision mandating all disputes or controversies between the members and CheyTac be resolved by binding arbitration.³ (*See* Operating Agreement § 10.02).

¹ Although no longer the operative pleading in this case, the parties cite to the exhibits to Plaintiff's original Complaint. Therefore, the Court considers those relevant documents as exhibits to the Second Amended Complaint.

² The arbitration provision reads:

I agree that any controversy or claim arising out of or relating to this Agreement or the breach thereof shall be settled, except as may otherwise be provided herein, by arbitration held in Atlanta . . . in accordance with the Commercial Arbitration Rules of the American Arbitration Association. . . . Any dispute as to whether a controversy or claim is subject to arbitration shall be submitted as part of the arbitration proceeding.

(PRA § 14 (alterations added)).

³ The Agreement provides:

Any claim, controversy or dispute arising between the Members and the Company, between a Member and the Company or between one or more Members with respect to this Agreement . . . shall be submitted to and finally resolved by, binding arbitration. . . . The arbitration shall be conducted pursuant to the terms of the Federal Arbitration Act and the Commercial Arbitration Rules of the American Arbitration Association. . . . Notwithstanding any other provision of this Section 10.02, any Dispute in which a party seeks equitable relief may be brought in any court having jurisdiction.

(Operating Agreement § 10.02 (alterations added)).

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The company “suffered . . . under Omanoff’s leadership,” and Omanoff eventually resigned. (2d Am. Compl. ¶ 16). Upon his resignation in November 2016, Omanoff and CheyTac executed a Membership Interest Purchase Agreement and Settlement Agreement whereby CheyTac repurchased the 9,000,000 shares previously held by Omanoff and the Omanoff Family Trust. (*See id.* ¶¶ 17, 65–66; *see also* Compl., Ex. 14, Membership Interest Purchase Agreement and Settlement Agreement [ECF No. 1-1] 99–104). The MIPASA contains a non-disparagement clause, and reiterates all disputes between the parties are subject to the dispute resolution procedures outlined in Section 10.02 of the Operating Agreement and Section 14 of the PRA. (*See* 2d Am. Compl. ¶ 18; MIPASA ¶¶ 12, 16).

In early 2017, Omanoff recruited John Taylor, a former CheyTac employee, and Brock Gardner, a consultant to CheyTac, to join him at NextGen. (*See* 2d Am. Compl. ¶ 67). In March 2017, Omanoff produced a NextGen products flyer “depicting a new brand of rifles and ammunition that directly compete with CheyTac [p]roducts” and which Plaintiff alleges contain “[i]nfringing” products. (*Id.* ¶¶ 19, 71 (alterations added)). Omanoff then sent a copy of the flyer to a longtime CheyTac client. (*See id.* ¶ 20). In April 2017, Omanoff registered NextGen as a Florida limited liability company. (*See id.* ¶ 21).

Also in April 2017, NextGen launched its website, www.nextgentactical.net, offering for sale what Plaintiff alleges to be infringing goods. (*See id.* ¶ 73). Among these are the “NextGen .375” rifle and the NextGen Winmag. (*See id.* ¶ 77). These rifles are “confusingly similar” to CheyTac’s M300 rifle and include CheyTac trademarks engraved on the body of the rifle and leg of the bipod. (*Id.* ¶¶ 77–78). Plaintiff alleges

“[i]f CheyTac’s trade secrets and intellectual property are used, disclosed, or transferred, the value to CheyTac of its trade secrets and intellectual property, particularly in the M200 and M300, .375CT, and .408CT will be significantly damaged and may be destroyed.” (*Id.* ¶ 80).

The Second Amended Complaint states 11 separate counts arising from these facts. (*See generally* 2d Am. Compl.). Specifically, Plaintiff raises claims for patent infringement; trade secret misappropriation; trade dress infringement under federal and state law; trademark infringement under federal and state law; breach of contract; deceptive and unfair trade practices in violation of state law; tortious interference with a contract; breach of duty of loyalty; and unjust enrichment. (*See generally id.*).

Defendants devote the greater part of the Motion to Dismiss to showing Plaintiff has failed to state a claim upon which relief may be granted (*see* Mot. 2–21), and assert “[s]hould the Court conclude that any of Plaintiff’s claims survive dismissal, Plaintiff should be compelled to arbitrate all such remaining issues (*id.* 21 (alteration added)). With regard to the matter of arbitration, Plaintiff argues the case should not be referred to arbitration because (1) “[t]he contracts contain a ‘carve out’ for equitable relief in a court of law, rather than in arbitration”; (2) Defendants have waived their right to arbitration; (3) Plaintiff’s claims lie in federal statute, not contract, and therefore injunctive relief may be sought in this action; and (4) arbitration cannot be a condition precedent to a lawsuit under Georgia law. (Resp. 20–21 (alteration added)). Because the Court concludes the case should be referred to arbitration, the Order does not address the sufficiency of Plaintiff’s claims on the merits.

In reviewing a motion to compel arbitration, the Court must consider: (1) whether

a valid written agreement exists between the parties containing an arbitration clause; (2) whether an arbitrable issue exists; and (3) whether the right to arbitration has been waived. *See, e.g., Curbelo v. Autonation Benefits Co.*, No. 14-CIV-62736, 2015 WL 667655, at *2 (S.D. Fla. Feb. 17, 2015).

The Federal Arbitration Act (“FAA”), 9 U.S.C. section 1 *et seq.*, makes written arbitration agreements “valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.” *Id.* § 2. The FAA has been interpreted as evincing a “liberal federal policy favoring arbitration” as well as a respect for the “fundamental principle that arbitration is a matter of contract.” *AT&T Mobility LLC v. Concepcion*, 563 U.S. 333, 339 (2011) (internal quotation marks omitted; first quoting *Moses H. Cone Mem’l Hosp. v. Mercury Constr. Corp.*, 460 U.S. 1, 24 (1983); then quoting *Rent-A-Ctr., W., Inc. v. Jackson*, 561 U.S. 63, 67 (2010)).

“[O]rdinarily, the question of arbitrability is undeniably an issue for judicial determination unless the parties clearly and unmistakably provide otherwise.” *U.S. Nutraceuticals, LLC v. Cyanotech Corp.*, 769 F.3d 1308, 1311 (11th Cir. 2014) (alteration added; alterations and internal quotation marks omitted) (quoting *AT&T Tech., Inc. v. Commc’ns Workers of Am.*, 475 U.S. 643, 647 (1986)). When parties incorporate the rules of the American Arbitration Association into their agreement, however, “they clearly and unmistakably agree that the arbitrator should decide whether the arbitration clause applies.” *Id.* (alterations and internal quotation marks omitted) (quoting *Terminix Int’l Co., L.P. v. Palmer Ranch Ltd. P’ship*, 432 F.3d 1327, 1332 (11th Cir. 2014)). And where a party asserts the other party has waived its right to arbitrate, courts apply a two-part test: “[f]irst, [they] decide if, under the totality of the circumstances, the party has

acted inconsistently with the arbitration right, and, second, [they] look to see whether, by doing so, that party has in some way prejudiced the other party.” *Krinsk v. SunTrust Banks, Inc.*, 654 F.3d 1194, 1200 (11th Cir. 2011) (internal quotation marks omitted; first alteration added) (quoting *Ivax Corp. v. B. Braun of Am., Inc.*, 286 F.3d 1309, 1315 (11th Cir. 2002)).

With respect to the carve-out, and the type of relief sought, Defendants correctly argue the question of what is arbitrable is one for the arbitrator. (*See* Reply 11 & n.65 (citing *Cellairis Franchise, Inc. v. Duarte*, No. CV 2:15-CV-00101, 2015 WL 11422299, at *4–5 (N.D. Ga. July 20, 2015))). Both of the arbitration provisions at issue leave the arbitrability determination to the arbitrator. (*See* PRA § 14 (“Any dispute as to whether a controversy or claim is subject to arbitration shall be submitted as part of the arbitration proceeding.”); *see also* Operating Agreement § 10.02 (“The arbitration shall be conducted pursuant to . . . the Commercial Arbitration Rules of the American Arbitration Association.^[4]” (alteration and footnote call number added))). Accordingly, the question of whether Plaintiff’s claims may be litigated or arbitrated is not one for the Court.

Furthermore, although the Eleventh Circuit has declined to address whether a carve-out provision removes claims from an arbitrator’s jurisdiction, it has held where there are multiple arbitration provisions at issue and only one contains a carve-out, the matter must be referred to arbitration for a determination of which governs. *See U.S. Nutraceuticals*, 769 F.3d at 1311. The carve-out for actions seeking injunctive relief

⁴ Rule 7(a) of the Commercial Rules of the American Arbitration Association states, “[t]he arbitrator shall have the power to rule on his or her own jurisdiction, including any objections with respect to the existence, scope, or validity of the arbitration agreement or to the arbitrability of any claim or counterclaim.” Am. Arb. Ass’n, Commercial Arb. Rules, R-7(a), <https://www.adr.org/sites/default/files/Commercial%20Rules.pdf> (last visited Oct. 11, 2017) (alteration added).

appears only in the Operating Agreement, not in the PRA (*compare* Operating Agreement § 10.02, *with* PRA § 14), and the Second Amended Complaint does not refer to the Operating Agreement. Indeed, the Second Amended Complaint only explicitly references the PRA and MIPASA. Because the PRA and the Operating Agreement are both incorporated by reference into the MIPASA (*see* MIPASA ¶ 16), it is unclear which claims are governed by either of the arbitration provisions.

There is therefore “a factual dispute — which contract governs — and the resolution of that question likely determines whether the allegations of [Cheytac] are arbitrable.” *U.S. Nutraceuticals*, 769 F.3d at 1311 (alteration added). Because the PRA does not contain the carve-out and may touch upon Plaintiff’s claims, it is “susceptible of an interpretation that covers the dispute.” *Id.* at 1312. (internal quotation marks omitted) (quoting *AT&T Techs.*, 475 U.S. at 650). Consequently, the dispute must be referred to the arbitrator to determine which claims are arbitrable.

Defendants are also correct they have not waived their right to arbitrate this dispute. (*See* Reply 10–11). Defendants have repeatedly notified the Court Plaintiff’s claims are subject to arbitration — beginning with Defendants’ first substantive filing. (*See* Response to Plaintiff’s Motion for a Preliminary Injunction [ECF No. 45] 3, 14–16; Motion for Rule 11 Sanctions [ECF No. 56] 18; Motion to Dismiss [ECF No. 76] 19–20; Motion to Dismiss [ECF No. 81] 21; Mot. 21). Plaintiff has not pointed to any specific actions Defendants have taken that might be considered “inconsistent with an intent to arbitrate.” *Morewitz v. W. of England Ship Owners Mut. Protection and Indem. Ass’n (Lux.)*, 62 F.3d 1356, 1366 (11th Cir. 1995) (citing *Price v. Drexel Burnham Lambert, Inc.*, 791 F.2d 1156, 1158 (5th Cir. 1986)). Defendants’ filing of multiple motions to

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dismiss seeking to either dismiss the claims or compel arbitration, and one motion for sanctions which also raised the arbitrability of Plaintiff's claims, hardly constitutes "substantially invok[ing] the litigation machinery" that might justify a finding of waiver. *Krinsk*, 654 F.3d at 1201 (alteration added) (quoting *S&H Contractors, Inc. v. A.J. Taft Coal Co.*, 906 F.2d 1507, 1514 (11th Cir. 1990)).

Lastly, Plaintiff's argument regarding the absence of any provision establishing arbitration as a condition precedent to initiating a lawsuit is not relevant to the Court's analysis. Ultimately, the question of which of Plaintiff's claims need be decided by the arbitrator is one for the arbitrator herself. This determination regarding the governing contract and scope of each arbitration provision must be made prior to proceeding in any court.

Based on the foregoing, it is

ORDERED AND ADJUDGED that the Motion [ECF No. 89] is **GRANTED in part**. This matter is **STAYED** to allow the parties to arbitrate Plaintiff's claims. The Clerk of the Court is directed to administratively **CLOSE** this case.

DONE AND ORDERED in Miami, Florida, this 12th day of October, 2017



CECILIA M. ALTONAGA
UNITED STATES DISTRICT JUDGE

cc: counsel of record