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Attorneys for Defendant
Sirius XM Radio Inc.

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

FLO & EDDIE, INC., a California corporation, individually and on behalf of all others similarly situated,

Plaintiffs,

v.

SIRIUS XM RADIO INC., a Delaware corporation, and DOES 1 through 10,

Defendants.

Case No. CV 13-05693 PSG (GJS)

Hon. Philip S. Gutierrez

DEFENDANT SIRIUS XM RADIO INC.'S NOTICE OF MOTION AND MOTION IN *LIMINE* NO. 1 / *DAUBERT* TO EXCLUDE TESTIMONY OF EXPERT MICHAEL WALLACE AND ANY OTHER EVIDENCE AND ARGUMENT THAT GROSS REVENUE ALONE IS AN APPROPRIATE MEASURE OF DAMAGES; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT

[DECLARATION OF CASSANDRA L. SETO AND [PROPOSED] ORDER FILED HEREWITH]

Pretrial Conf. Date: Oct. 31, 2016
Trial Date: Nov. 15, 2016
Courtroom: 880

TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that, on November 15, 2016, or as soon thereafter as the matter may be heard before the Honorable Philip S. Gutierrez in Courtroom 880 of the Edward R. Roybal Federal Building and United States Courthouse, located at 255 East Temple Street in Los Angeles, California, defendant Sirius XM Radio Inc. ("Sirius XM") will and hereby does move for an order precluding plaintiff Flo & Eddie and a class of owners of pre-1972 recordings performed by Sirius XM in California (collectively, "plaintiffs"), from introducing expert opinion testimony from Michael J. Wallace and any other evidence or argument that gross revenue without deduction of costs is an appropriate measure of damages for plaintiffs' claims.

This motion is made on the grounds that Mr. Wallace's expert opinions are all based on the erroneous assumption that gross revenue attributable to the use of pre-1972 recordings is the proper measure of damages in this case. Damages in this case must be calculated by reference to the value of plaintiffs' property at the time it allegedly was taken from them. Under this standard, the appropriate measure of damages here is a reasonable royalty or, at most, a net profits analysis that takes into account the defendant's costs—neither of which calculation has been undertaken by Mr. Wallace. Since Mr. Wallace's entire report is based on the fundamentally flawed gross revenue model, all of his opinions should be stricken.

This motion is based on this notice of motion and motion, the attached memorandum of points and authorities and [Proposed] Order, the Declaration of Cassandra L. Seto, filed concurrently herewith, all of the pleadings, files, and records in this proceeding, all matters of which a court may take judicial notice, and any argument or evidence that may be presented to or considered by the Court prior to its ruling. This motion is made following the conference of counsel on September 22, 2016 and September 27, 2016. Seto Decl. ¶ 2.

Dated: September 30, 2016

Respectfully Submitted,

DANIEL M. PETROCELLI
CASSANDRA L. SETO
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By: /s/ Daniel M. Petrocelli
Daniel M. Petrocelli

Attorneys for Sirius XM Radio Inc.

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MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

Plaintiffs, through the testimony of their expert witness, Michael Wallace, seek to obtain a windfall by arguing to the jury that damages in this action can be determined solely according to Sirius XM's gross revenue without deduction of costs (the "gross revenue model"). As explained below, the appropriate remedy for plaintiffs' three remaining causes of action—conversion, misappropriation/violation of Civil Code § 980(a)(2), and violation of Business & Professions Code §§ 17200 and 17203—must value the claims according to the "detriment" allegedly caused to plaintiffs at the time their rights were violated. No statute or case supports the notion that plaintiffs are entitled to calculate their damages based on Sirius XM's gross revenue without any deductions thereto.

At various times, plaintiffs have asserted that their gross revenue model is "authorized" by two cases, *A&M Records, Inc. v. Heilman*, 75 Cal. App. 3d 554 (1977), and *Lone Ranger Television, Inc. v. Program Radio Corp.*, 740 F.2d 718 (9th Cir. 1984). Indeed, plaintiffs claim that the Court has already "endorsed" their damages model.[1] *See, e.g.*, 9/12/2016 Pl.'s Reply ISO Mtn. for Fee Award at 7 (Dkt. No. 431). Neither plaintiffs' characterization of *Heilman* and *Lone Ranger* nor their assertion that the Court has pre-approved plaintiffs' view of those cases is accurate, however. As explained below, these cases represent situations in which recovery based on gross revenue occurred only because their facts were unusual. In *Heilman*, the court specifically discussed that the defendant failed to prove its expenses due to "inaccurate and incomplete books," a reference that would make no sense if the appropriate form of damages flatly forbid deduction of costs. *See* 75

[1] This motion does not seek to re-litigate issues of class certification. Rather, the issue posed by this motion is simply whether it is proper for plaintiffs' expert to render an opinion on damages that is based solely on a calculation of gross revenues without any deductions for costs or analysis of reasonable royalty.

Cal. App. 3d at 570 n.11. And, in *Lone Ranger*, the defendant simply conceded, without argument or analysis, that a truncated gross revenue damages analysis applied. 740 F.2d at 726.

Mr. Wallace is knowledgeable about "lots of different ways to measure damages," but disregarded all of them in order to apply the gross revenue model "that was provided by counsel."[2] As explained below, damages in this case must be calculated by reference to the value of plaintiffs' property at the time it allegedly was taken from them. Under this standard, the appropriate measure of damages is a reasonable royalty or, at most, a net profits analysis that takes into account Sirius XM's costs—neither of which has been calculated by Mr. Wallace.[3] Since Mr. Wallace's entire report is based on the fundamentally flawed gross revenue model, his opinions should be stricken.

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[2] 4/20/2015 Wallace Depo. Tr. at 99:17-100:5 ("Q. You tell me. What's the damage method? Describe for me in simple terms, so we can have a conversation, what your damage method was in this case. A. Well, usually when I think of damage method or methodology, I think of all the different ways one might measure damages, lost profits, reasonable royalty, increased costs. There's lots of different ways of measuring damages. In this case, the damage method was provided to me. It was gross revenues, attributable to pre-'72 sound recordings without deduction of cost. It was an assumption I made. So that was provided by counsel.").

[3] At the outset of this case, plaintiffs' anticipated damages followed the typical approach and were completely consistent with the damages standards discussed in this motion: as described by the Court, plaintiffs originally advocated for damages "*in the form of license fees* that Sirius XM should have paid Flo & Eddie in order to publicly perform its recordings." 9/22/14 Order Granting Pl.'s Motion for Summary Judgment ("9/22/14 Order") at 14 (Dkt. No. 117) (emphasis added); *see also id.* at 15 (stating that damages for misappropriation claim would be "*in the form of foregone licensing or royalty payments*" (emphasis added)); *id.* at 13 (stating that § 17200 remedy should compensate for "economic harm *in the form of foregone licensing or royalty payments*" (emphasis added)). The gross revenue model on which plaintiffs now rely was adopted only later.

II. MR. WALLACE'S EXPERT REPORT SHOULD BE STRICKEN BECAUSE IT IS ENTIRELY BASED ON A FALSE ASSUMPTION

Rule 702 governs expert testimony and instructs courts to act as gatekeepers to exclude unreliable expert opinions. *See Daubert v. Merrell Dow. Pharms., Inc.*, 509 U.S. 579, 597 (1993). This "gatekeeping" duty applies to *all* expert testimony—not just scientific testimony. *See Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 147 (1999). A party offering expert opinion must prove it is admissible. *Lust By and Through Lust v. Merrell Dow Pharms., Inc.*, 89 F.3d 594, 598 (9th Cir. 1996). Expert testimony is admissible only if (1) the expert has "specialized knowledge" that will help the court; (2) the testimony is based upon sufficient facts or data; (3) the testimony is the product of *reliable principles and methods*; and (4) the witness has *applied the principles and methods reliably* to the facts of the case. *See* Fed. R. Evid. 702; *Kumho Tire*, 526 U.S. at 141. An expert's erroneous assumption can be a basis for exclusion under *Daubert*. *See Enovsys LLC v. AT&T Mobility LLC*, 2015 WL 10383057, at *2 n.2 (C.D. Cal. Aug. 10, 2015) (excluding expert opinion and ordering removal of jury instructions concerning damages).

A motion in *limine* is also an appropriate mechanism to prohibit an expert from testifying as to opinions that are premised on an incorrect assumption of fact or law. *See Villalpando v. Exel Direct Inc.*, 161 F. Supp. 3d 873, 895 (N.D. Cal. 2016) ("an expert's reliance on incorrect legal assumptions would warrant exclusion" at the motion in *limine* stage). It is also the proper mechanism to challenge the inclusion of evidence that is unfairly prejudicial or confusing to the jury. *See* Fed. R. Evid. 403.

Plaintiffs contend that Sirius XM's gross revenue attributable to pre-1972 recordings, without deduction of costs, is the proper measure of damages in this case. Not surprisingly, all of Mr. Wallace's opinions are predicated on that same false assumption:

> I have been asked to assume that the proper measure of compensatory damages as a remedy under California law for Sirius XM's alleged violation of Civil Code §980(a)(2), conversion, and misappropriation of Pre-1972 Recordings is *Sirius XM's gross revenues attributable to the use of those recordings, without deduction of costs*. I have additionally been asked to assume that the proper measure of restitution as a remedy under California Bus. & Professions Code §§ 17200 and 17203 is also *Sirius XM's gross revenues attributable to the use of those recordings by Sirius XM, without deduction of costs*.

See, e.g., 3/13/2015 Wallace Expert Report ¶ 10 (emphasis added).

As will be explained below, however, the gross revenue model on which plaintiffs and Mr. Wallace rely does *not* apply here. Accordingly, by assuming that gross revenue is the only measure of plaintiffs' damages, Mr. Wallace "improperly skew[s] the damages horizon" in a manner likely to mislead the jury into believing that plaintiffs are, in fact, entitled to Sirius XM's gross revenue when the law dictates that they are not. *Enovsys*, 2015 WL 10383057, at *5 (granting motion to exclude expert testimony where expert based the "starting point" of his damages analysis on an "erroneous assumption").

For example, in *McGlinchy v. Shell Chemical Co.*, 845 F.2d 802, 807 (9th Cir. 1988), the district court properly excluded expert testimony on damages, in part because the expert relied on broad generalizations about the plaintiff's gross sales to establish losses for particular product lines in particular territories. The Ninth Circuit affirmed the district court's exclusion of his report because it posed "a great danger of misleading a jury into believing" that the gross sales were equivalent to "'lost profits' in particular product lines and territories." *Id*. Like the proposed expert testimony in *McGlinchy*, Mr. Wallace's report conflates two distinct concepts: plaintiffs' damages and Sirius XM's gross revenue. His opinions and testimony therefore "rest[] on unsupported assumptions and ignore[] distinctions crucial to arriving at a valid conclusion" *Id*.

Mr. Wallace's misunderstandings of the law and failure to undertake an appropriate damages analysis render his expert analysis, opinions, and any related evidence or argument inadmissible. *See In re Silicone Gel Breast Implants Prods. Liab. Litig.*, 318 F. Supp. 2d 879, 890 (C.D. Cal. 2004) ("[A]ny step that renders [the expert']s analysis unreliable . . . renders the expert's testimony inadmissible. This is true whether the step completely changes a reliable methodology or merely misapplies that methodology.").

Alternatively, Rule 403 provides an independent ground for excluding Mr. Wallace's opinions and any other evidence or argument related to the gross revenue model because its "probative value is substantially outweighed by the danger . . . of unfair prejudice, confus[ion of] the issues, [or] misleading the jury . . ." Fed. R. Evid. 403; *see also Jinro Am. Inc. v. Secure Investments, Inc.*, 266 F.3d 993, 1006 (9th Cir. 2001) ("Otherwise admissible expert testimony may be excluded under Fed. R. Evid. 403 if its probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or undue delay."). Even if portions of Mr. Wallace's opinions might have some relevance to a proper damages calculation, the repeated and cumulative flaws in his analysis undermine any potential probative value and raise the specter of jury confusion. Indeed, expert testimony "can be both powerful and quite misleading because of the difficulty in evaluating it. Because of this risk, the judge in weighing possible prejudice against probative force under Rule 403 . . . exercises more control over experts than lay witnesses." *Jinro Am. Inc.*, 266 F.3d at 1005.

III. PLAINTIFFS CAN RECOVER ONLY THE VALUE OF THE PRE-1972 RECORDINGS AT THE TIME OF THE ALLEGED WRONG

It is a bedrock principle of California tort law that "damages are normally awarded for the purpose of compensating the plaintiff for injury suffered, i.e., restoring the plaintiff as nearly as possible to his or her former position, or giving

some pecuniary equivalent." 6 B.E. Witkin, SUMMARY OF CALIFORNIA LAW, *Torts* § 1548 (10th ed. 2005). A corollary to this principle is that California law does not support windfall awards: "A plaintiff in a tort action is not, in being awarded damages, to be placed in a better position than he would have been had the wrong not been done." *Valdez v. Taylor Auto. Co.*, 129 Cal. App. 2d 810, 821-22 (1954). Here, the plaintiffs' damages have to be measured by the value of the property at issue (the non-exclusive right to perform pre-1972 sound recordings) at the time it was used—not by reference to Sirius XM's gross revenue without deduction of costs.

A. Damages for Conversion or Misappropriation Are Determined by the Value of Plaintiffs' Property at the Time of the Tort, Which Would Be a Reasonable Royalty

Conversion damages are governed by Civil Code § 3336, which provides as follows:

> The detriment caused by the wrongful conversion of personal property is presumed to be:
> First—*The value of the property at the time of the conversion*, with the interest from that time, or, an amount sufficient to indemnify the party injured for the loss which is the natural, reasonable and proximate result of the wrongful act complained of and which a proper degree of prudence on his part would not have averted….

Cal. Civ. Code § 3336 (emphasis added); *see Lueter v. State of California*, 94 Cal. App. 4th 1285, 1301-02 (2002). "As a general rule, the value of the converted property is the appropriate measure of damages, and resort to the alternative occurs only where a determination of damages on the basis of value would be manifestly unjust." *Id.* Damages for misappropriation claims are calculated in the same manner as for conversion claims. *See, e.g., Heilman*, 75 Cal. App. 3d at 570; *see generally* Cal. Civ. Prac. Bus. Litig. § 68:20 (discussing damages for acts of conversion or misappropriation as governed by Cal. Civ. Code § 3336).

1. The Appropriate Value for a Public Performance Right Is Equivalent to a Reasonable Royalty

The typical manner in which the value of a property at the time of conversion will be calculated is illustrated by *Newhart v. Pierce*, 254 Cal. App. 2d 783 (1967). In *Newhart*, the defendants removed more cattle from plaintiffs' ranch than their contract actually permitted them to take, but did so with the belief that they had the right to take the additional cattle. *Id.* at 793. Defendants then invested resources over the next year to fatten up the herd (including the additional cattle), and then eventually sold the herd at a profit. *Id.* at 794. When the plaintiffs later sued for conversion of the additional cattle, they sought to recover the defendants' profits from re-selling the entire herd. *Id.* The court rejected that effort, however, finding that "the proper measure of damages here is the value of the property at the time of the conversion plus interest." *Id.* As for the plaintiff's attempt to recover net profits, the court found no "exceptional circumstances" existed that would permit a different valuation method—and that, in any event, there had been no evidence introduced as to the portion of the profits that could be attributed to the additional cattle. *Id.*

In this case, plaintiffs are entitled only to the value that a willing buyer would have paid for a non-exclusive public performance right for plaintiffs' recordings. *See Circuito Cerrado, Inc. v. Garcia*, 2011 WL 4529740, at *4 (N.D. Cal. Sept. 29, 2011) ("Under California law, a prevailing party is entitled to the amount it would have received had the defendant paid for the [property]."). Such a payment would be a *reasonable license fee*—which is exactly what the typical plaintiff asserting claims for common law copyright, conversion, or misappropriation of an intangible right receives. *See, e.g., Williams v. Weisser*, 273 Cal. App. 2d 726, 743 (1969) (awarding reasonable value of license for appropriation of literary property in violation of common law copyright); *Integrated Sports Media, Inc. v. Mendez*, 2014 WL 3728594, at *5 (N.D. Cal. July 28, 2014) (damages for conversion and

misappropriation of plaintiff's exclusive "ownership over the nationwide distribution rights" for sporting event is measured by "denial of the license fee to which [plaintiff] would otherwise have been entitled"); *J & J Sports Prods., Inc. v. Medina*, 2014 WL 641919, at *4-5 (E.D. Cal. Feb. 18, 2014) (conversion of "[e]xclusive right to distribute a broadcast signal to commercial establishments" is measured by the market "rate" to broadcast that program "at an establishment such as Defendant's"). This is also precisely what the Court originally expected plaintiffs would receive. 9/22/14 Order at 14 (Dkt. No. 117) (noting that plaintiffs anticipated damages would be "in the form of *license fees that Sirius XM should have paid* Flo & Eddie in order to publicly perform its recordings." (emphasis added)); *see also id.* at 13, 15.

2. No Basis Exists to Depart From the Normal Valuation Rules Because Plaintiffs Have Neither Pled Nor Shown "Special Circumstances"

To depart from the usual rule that conversion or misappropriation damages are calculated by the value of the property at the time of the wrong, a plaintiff "must *plead and prove special circumstances* that require a measure of damages other than value, and the jury must determine whether it was reasonably foreseeable that special injury or damage would result from the conversion." *Lueter*, 94 Cal. App. 4th at 1302 (emphasis added); *Krueger v. Bank of Am.*, 145 Cal. App. 3d 204, 215 (1983) (plaintiff must "plead and prove the existence of special circumstances which require a different measure of damages to be applied"); *see also Newhart*, 254 Cal. App. 2d at 794.

Here, plaintiffs have neither pled, nor can they prove, circumstances that would support an alternate measure of damages. To lay claim to a defendant's profits, the plaintiff must be able to show that he or she had the ability and would have made those same profits had the defendant not converted or misappropriated the plaintiff's property. A case cited by the *Newhart* court, *Crofoot Lumber, Inc. v. Ford*, 191 Cal. App. 2d 238 (1961), illustrates this basic concept. In *Crofoot*, the

plaintiff entered into a contract that would have allowed one defendant to remove certain trees from its land. *Id.* at 241. After that defendant breached the contract, the plaintiff sued for a judgment declaring the agreement rescinded. *Id.* While that action was pending, the plaintiff discovered that the defendant had authorized several others to start taking trees. *Id.* at 241-42. The plaintiff then sued the defendant and his cohorts in a second lawsuit for damages. *Id.* at 242. On its conversion claim in the second case, the plaintiff sought both the stumpage value of the trees (what a buyer would pay to cut down a tree) *and* the defendants' profit from selling finished lumber from the trees. *Id.* at 247-48. The *Crofoot* court concluded that the plaintiff was at least entitled to the stumpage value, which, like a reasonable license fee in the case at bar, would be "the value of the property at the time of the conversion" under § 3336. *Id.* at 248. But the court further noted that the facts pled and proven at trial entitled the plaintiff to more than stumpage value, because damages to compensate for the trees being cut down alone "'hardly seems an adequate measure of relief to a plaintiff who intended to market his trees, not by selling them as standing timber, but by cutting them and selling them as logs or lumber.'" *Id.* at 249 (quoting McCormick, HANDBOOK ON THE LAW OF DAMAGES at 492 (1935 ed.)).

Under these special circumstances, the *Crofoot* court concluded that the appropriate recovery on the plaintiff's conversion claim should be "the market value of the lumber manufactured less the reasonable costs incurred in the manufacture," as long as the amount recovered would "in no event be less than the stumpage value of the timber." *Id.* at 250. This departure from the normal method of calculating conversion damages was appropriate, the court reasoned, because:

> In the instant case *the timber was a marketable product*, and it seems reasonable to us that damage should be determined on the basis of market value, less the reasonable and necessary cost of marketing, the same as with annual crops, i.e., the expense of

> harvesting, cutting, hauling and delivering the logs to the mill where they were sold.

Id. at 249 (emphasis added).

Conversely, where the plaintiff *cannot* show he or she could have made the same profits the defendant made, recovery based on the defendant's profits will be denied. *Read v. Turner*, 239 Cal. App. 2d 504 (1966), is instructive. There, the plaintiffs created a floor plan for their home and shared it with the defendant, who was bidding on part of the work for the plaintiffs' residence. *Id.* at 507. The defendant then paid a designer to copy the plaintiffs' floor plan and used the copied plans to build 10 other residences in the same development as the plaintiffs' home. *Id.* at 507-08. Eventually, the plaintiffs sued the defendant and his draftsman for infringement and obtained damages based on a variety of theories, including the plaintiffs' own alleged lost profits and a claim to an estimate of the defendants' profits. *Id.* at 509-510; *see also id.* at 514-15.

The Court of Appeal reversed the entire damages award, however, for lack of sufficient evidence. On plaintiffs' theory that they had lost "profits" because they should have been able to build and sell other homes in the development using their plans, the appellate court rejected the claim because the plaintiffs had never engaged in the business of building homes. *Id.* at 514. Further cutting against an award for such profits, the court noted, was the fact that "plaintiffs were entitled to continue to use their floor plan wheresoever they desired"—but failed to build any other homes. *Id.* Turning to the plaintiffs' argument that they alternatively should be permitted to recover the *defendants'* profits from selling the 10 homes, the court again rejected their claim as speculative: "there was no evidence to show how much, if any, profit defendants received from the sale of their houses; nor how much, if any, profit receivable from them would be attributable to the use of plaintiffs' floor plan and how much to other factors ordinarily contributing to profit derivable from the construction and sale of houses." *Id.*

Like the *Read* plaintiffs, the plaintiffs here cannot demonstrate any special circumstances that permitted a recovery of the defendant's profits in *Crofoot*. First, plaintiffs have never pled, put forward evidence, or even suggested that they had an intent to use their pre-1972 recordings in any way *other* than by licensing public performances of those recordings. The plaintiffs do not claim to be and are not in the business of operating a satellite digital radio service, internet-based radio service, or commercial music programming service—which is how Sirius XM makes its profits—and they do not claim and were not in a position to start and successfully operate such a service. Second, Sirius XM was not selling non-exclusive performance licenses or doing anything that would deprive plaintiffs of the opportunity to license or sell recordings to anyone. Indeed, far from interfering with the ability of plaintiffs to monetize their rights in the pre-1972 recordings, Sirius' activities *enhanced* those abilities. As one of the principals of Flo & Eddie affirmed during a guest appearance on Sirius XM's "Freewheelin'" program, the company's public performances of the Turtles' music "has helped a great deal" in promoting sales.[4]

3. The Damages Measure Used in *Heilman* Is Consistent With a Profits Analysis Based on Special Circumstances

The decision in *Heilman* is based on and employs the same principles outlined in *Newhart, Crofoot* and *Read*—and, contrary to plaintiffs' assertions, does *not* support a damages model based on gross revenue without deduction of costs. To begin with, the facts of *Heilman* show precisely the sort of "special circumstances" that permit a plaintiff to go beyond a reasonable royalty valuation and seek the defendants profits. The defendant in *Heilman* was engaged in acts of

[4] Interview of Howard Kaylan on Sirius XM's Freewheelin' (SXM-F&E_00016578.) Mr. Kaylan stated, "I know that for us as the Turtles we see more money now from BMI and reporting agencies than we have in the last 20 years of trying to sell hard copies of our music. Now downloads are common, uh satellite radio has helped a great deal."

piracy, in that he would take recordings owned by others (including the plaintiff, A&M Records) and then create commercial "mix tapes" by copying the recordings to physical phonograph records or magnetic tapes that he would then sell. *Heilman*, 75 Cal. App. 3d at 560. By selling essentially the same product as the plaintiff (tangible copies of the sound recordings), the *Heilman* defendant was causing the same type of harm as the defendants in *Crofoot*—he was depriving the plaintiff of profits that it otherwise would have been able to realize by selling the same finished product (records and tapes). This is precisely the sort of "special circumstances" that allow for a recovery under the alternative valuation method in § 3336.

Moreover, the damages measure employed in *Heilman* was a profits analysis, not a gross revenue analysis. A profits analysis starts with gross revenue, but then it subtracts out appropriate costs and expenses. The plaintiff in *Heilman* obtained a judgment based on gross revenues only after the trial court determined that the "defendants 'failed to carry their burden of proof with respect to [their] costs and expenses'" because their "inaccurate and incomplete books [made] it . . . impossible to verify their alleged expenses." 75 Cal. App. 3d at 570 n.11; *see also, e.g., Landes Mfg. Co. v. Chromodern Chair Co.*, 1978 WL 21346, at *5 (C.D. Cal. Oct. 5, 1978) (citing *Heilman* for the proposition that deduction of costs are not allowed "where [defendant's] business records are missing or incomplete since an assessment [of costs] would be entirely speculative."). Costs clearly were appropriately considered in *Heilman*; there was just a failure of proof on the defendant's part. If the damages measure being employed did not allow for *any* costs (which is what plaintiffs here contend), there would have been no reason for the court to have analyzed and excluded the defendants' costs on evidentiary grounds—costs simply would have been excluded as irrelevant.[5]

[5] In arguing for their gross revenue model, plaintiffs also point to the statement in *Heilman* that "[o]ne who misappropriates the property of another is not entitled to deduct any of the costs of the transaction by which he accomplishes his wrongful

4. The Damages Measure Used in *Heilman* Does Not Support Application of a Gross Revenue Model Here

Here, plaintiffs can demonstrate none of the "special circumstances" required to employ a profits analysis. First, Sirius XM is not a pirate or competing timber mill that has stolen or made a product that plaintiffs themselves otherwise would have been able to sell. Second, as noted above, plaintiffs' sole use of their pre-1972 recordings was to sell non-exclusive public performance licenses—an activity that Sirius XM did not interfere in or prevent plaintiffs from doing.

Furthermore, even if special circumstances could be shown (which they cannot), no logical reason exists to use Sirius XM's "gross revenue" (or even its net profits) as a measuring stick for plaintiffs' damages because such revenue and profits are vastly removed from the value of the performance rights allegedly taken from plaintiffs. *See, e.g., Tyrone Pac. Int'l Inc. v. MV Eurychili*, 658 F.2d 664, 666-67 (9th Cir. 1981) ("Even when applying the alternative provision [of § 3336], the courts look to the value of the property as the measure of damages, calculating it on a different basis where justice demands."). The alternative valuation component of § 3336 expressly requires an alleged loss beyond the value of the property at the time of conversion or misappropriation to be "the natural, reasonable

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conduct." 75 Cal. App. 3d at 570. Plaintiffs misapprehend what this means, because it does *not* mean that all costs are excluded in a profits analysis. In the case cited by the *Heilman* court for this proposition, *Ward v. Taggart*, 51 Cal. 2d. 736, 739-40 (1959), the plaintiff asserted a fraud claim against a broker who knew the seller of a property would take $4,000 per acre, but had told the plaintiff that the seller wanted $5,000 per acre and then pocketed the difference. On appeal, the defendant argued that he should have been able to deduct five expenses as costs. *Id.* at 744. The California Supreme Court did not allow him to deduct two of the claimed items on the grounds they "were expenses incurred to accomplish the fraud" and "would not have been necessary to a legitimate transaction." *Id.* As to the remaining three, however, they were excluded solely because it was "entirely speculative whether [they] … would have been paid … had the transaction been a legitimate one." *Id.*

and proximate result of the wrongful act complained of." Cal. Civ. Code § 3336. This means that any alleged special injury or damage must be "reasonably foreseeable." *Lueter*, 94 Cal. App. 4th at 1302. Plaintiffs cannot possibly establish such a connection here. It is indisputable that, prior to this Court's September 22, 2014 summary judgment order, no court had recognized that California Civil Code § 980 granted pre-1972 sound recording owners an exclusive public performance right. 9/08/16 Order Granting in Part and Denying in Part Def.'s Mtn. for Partial Summary Judgment at 2 (Dkt. No. 411) ("9/08/16 Order"). If no one knew that right existed, it would have been impossible for Sirius XM to have usurped any "profit" or "revenue" opportunity that plaintiffs could derive from that right.

B. Damages for Misappropriation of Section 980(a)(2) Rights Cannot Be Determined by Mr. Wallace's Gross Revenue Model

To the extent that damages for plaintiffs' claim for misappropriation of rights conferred by Section 980(a)(2) are governed by Civil Code § 3333 rather than Civil Code § 3336, the result would still be the same. In the copyright context, California courts consider the following factors in assessing damages:

> the loss in value of the subject matter of the copyright because of the infringement; the value of the work of the owner thereof in creating such; the value of its use by another; and the loss of profit sustained by the owner on account of the infringement.

Read, 239 Cal. App. 2d at 514.

Applying these factors here, plaintiffs' proposed damages theory misses the mark—and widely. Plaintiffs do not claim, and certainly cannot show by adverting to Sirius XM's gross revenue that there has been a "loss in value" of the plaintiffs' public performance rights due to the infringement. Indeed, those rights only sprang into existence in September 2014 when the Court issued its summary judgment ruling on liability. *See* 9/08/16 Order at 2 ("Prior to this [Court's 9/22/14 Order], no court had ever expressly recognized [a public performance right under Civil Code § 980]."). Nor have plaintiffs or their expert attempted to establish the value

of their efforts in creating the copyrighted works or the value of those works to others (i.e., a reasonable royalty). And Mr. Wallace's gross revenue model certainly does not establish the loss of any profit *to plaintiffs* due to claimed infringement. Aside from the fact that the plaintiffs here likewise remained free "to continue to use their [copyrights] wheresoever they desired" by licensing them to anyone who would pay for that right, they have not made any effort to identify the portion of Sirius XM's *profits* that could be deemed attributable to the unauthorized use of their recordings. *Read*, 239 Cal. App. 2d at 514; *see also Williams*, 273 Cal. App. at 743 (affirming award for royalty damages for common law copyright infringement where defendant published and sold notes collected during plaintiff's classroom lectures).

C. Restitution Under the UCL Cannot Be Determined by Mr. Wallace's Gross Revenue Model

An unfair competition claim brought under California Business & Professions Code § 17200 "is equitable in nature; damages cannot be recovered." *In re Tobacco Cases II*, 240 Cal. App. 4th 779, 790 (2015). Under Business & Professions Code § 17203, injunctive relief is the principal remedy provided, but "[r]estitution is available 'to restore to any person in interest any money or property . . . which may have been acquired by means of . . . unfair competition.'" *Id.* (quoting Cal. Bus & Prof. Code § 17203).

Plaintiffs concede, as they must, that any claim for disgorgement of Sirius XM's gross revenue under the UCL is available only "to the extent that it constitutes restitution." 8/22/2016 Pl.'s Opp. to Mtn. for Partial Summary Judgment at 19 n.3 (Dkt. No. 362). Restitution under the UCL, however, "operates only to return to a person those *measurable amounts* which are *wrongfully* taken by means of an unfair business practice." *Day v. AT&T Corp.*, 63 Cal. App. 4th 325, 338-39 (1998) (emphasis in original) ("The intent of the section is to make whole, equitably, the victim of an unfair practice."); *see also Clark v. Super. Ct.*, 50 Cal.

4th 605, 614 (2010) ("The object of restitution is to restore the status quo by returning to the plaintiff funds in which he or she has an ownership interest."). Thus, it is "clear that the Legislature intended to limit the available monetary remedies under the UCL" to situations fitting that definition. *Alch v. Sup. Ct.*, 122 Cal. App. 4th 339, 406 (2004).

Under established California Supreme Court precedent, a form of relief will not be "restitutionary"—and therefore is not available under the UCL—where the plaintiff did "not seek[] the return of money or property that was once in its possession," the proposed relief "would not replace any money or property that [defendants] took directly from plaintiff," or where "plaintiff has no vested interest in the money it seeks to recover." *Korea Supply Co. v. Lockheed Martin Corp.*, 29 Cal. 4th 1134, 1149-52 (2003) (refusing to award plaintiffs' request for defendants' profits under a UCL claim); *see also In re First Alliance Mortg. Co.*, 471 F.3d 977, 997 (9th Cir. 2006) ("[R]estitution means the return of money to those persons from whom it was taken or who had an ownership interest in it.").

Plaintiffs' and Mr. Wallace's gross revenue model is fundamentally inconsistent with a restitutionary remedy under the UCL.[6] As the Fourth District

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[6] That plaintiffs seek the same monetary amount for "restitution" under the UCL as they do for damages on their asserted tort claims likewise underscores the relief is not restitutionary. The limited availability of monetary relief under the UCL "reaffirms the balance struck in this state's unfair competition law between broad liability and limited relief," and courts are reluctant to expand that relief lest they create a perverse "incentive to recast claims under traditional tort theories as UCL violations." *Korea Supply Co.*, 29 Cal. 4th at 1151-52; *see also e.g., United States v. Sequel Contractors, Inc.*, 402 F. Supp. 2d 1142, 1156 (C.D. Cal. 2005) (noting that plaintiff "seeks the same monetary relief in its UCL claim that it seeks in its breach of contract and negligence claims. [Plaintiff] is seeking damages, not restitution"); *EchoStar Satellite Corp. v. NDS Grp. PLC*, 2008 WL 4596644, at *9 (C.D. Cal. Oct. 15, 2008) ("Even the way that [plaintiff] conceptualizes its restitution claim is substantially identical to the way it presented its actual damages claim to the jury . . . [h]owever, the Court must be weary of claims for restitution that are identical to claims for actual damages.").

Court of Appeal explained: "Courts ordering restitution under the UCL are not concerned with restoring the violator to the status quo ante. The focus instead is on the victim." *In re Tobacco Cases II*, 240 Cal. App. 4th at 801; *see also Hahn v. Massage Envy Franchising, LLC*, 2014 WL 5100220, at *15 (S.D. Cal. Sept. 25, 2014) (same). Courts therefore draw a distinction between restitution, which "focuses on the plaintiff's loss," and disgorgement, which "focuses on the defendant's unjust enrichment." *Meister v. Mensinger*, 230 Cal. App. 4th 381, 398 (2014). Stated differently, "[t]here is a difference between 'getting' and 'getting back.'" *Watson Labs., Inc. v. Rhone-Poulenc Rorer, Inc.*, 178 F. Supp. 2d 1099, 1122 (C.D. Cal. 2001). The UCL permits the plaintiffs to "get back" something that a defendant took, but they cannot simply "get" the defendant's gross revenue (or its profits). *See Korea Supply Co*., 29 Cal. 4th at 1149-52.

The only exception to this rule is for circumstances where a plaintiff can prove that a defendant's profit was "money or property that defendants took directly from a plaintiff or in which a plaintiff has a vested interest." *L.A. Taxi Cooperative, Inc. v. Uber Techs., Inc.*, 114 F. Supp. 3d 852, 867 (N.D. Cal. 2015); *In re First Alliance*, 471 F.3d at 997 (award of defendant's profits can be restitution only if it involves returning "money to those persons from whom it was taken or who had an ownership interest in it"). Even then, though, the "salient question is whether [defendant's] profits were property taken from [plaintiff]." *Theme Promotions Inc. v. News Am. Mktg. FSI*, 546 F.3d 991, 1008-09 (9th Cir. 2008); *see also Colgan v. Leatherman Tool Group, Inc.*, 135 Cal. App. 4th 663, 699 (2006).

Here, plaintiffs did not—and cannot—allege or prove that Sirius XM "directly took" from them any money that constitutes Sirius XM's gross revenue or any portion of it. Nor can plaintiffs show that awarding some percentage of Sirius XM's gross revenue "would merely restore the status quo by returning to the plaintiff[s] funds in which [they] ha[ve] an ownership interest…" *Ferrington v. McAfee, Inc.*, 2010 WL 3910169, at *9 (N.D. Cal. Oct. 5, 2010). As Judge Gary R.

Klausner recently explained:

> [T]he amount of restitutionary disgorgement cannot simply be the profit that a defendant earns by defrauding a plaintiff, instead it must represent the amount the plaintiff lost as a result of the defendant's deceptive practices . . . [A] plaintiff is not merely entitled to any profit that a defendant fraudulently earns; rather, she is entitled only to those profits that represent money she lost . . . . Plaintiff's proposed model does not account for the actual amount she lost; instead, she merely seeks the full profit Defendant earned on the merchandise. Such a proposed measure is impermissible [under the UCL].

Chowning v. Kohl's Dep't Stores, Inc., 2016 WL 1072129, at *8-9 (C.D. Cal. Mar. 15, 2016). By seeking Sirius XM's gross revenue, plaintiffs here likewise are seeking something far broader than the specific funds they lost—which were solely the license fees they would have received from licensing public performances of pre-1972 recordings by Sirius XM.

Adobe Systems Inc. v. Alghazzy, 2015 WL 9478230 (N.D. Cal. Dec. 29, 2015), a case upon which plaintiffs rely, is consistent with this rule. Adobe alleged that the defendant there was "press[ing] unauthorized copies of Plaintiff's Adobe Branded Software," which were then being sold with "spurious and counterfeit trademarks." *Id.* at *1. The court allowed the UCL claim to proceed because Adobe "alleged a vested interest in the products the defendants sold because the claim essentially alleged that the defendant *was selling the plaintiff's property*." *Id.* at *2 (emphasis added). Unlike in a counterfeit case like *Adobe*, Sirius XM's broadcast of plaintiffs' songs did not sell plaintiffs' property, nor did it compete with or diminish the market value of plaintiffs' music in any way. As a result, Sirius XM's gross revenue does not stem from an interest wrongfully taken from plaintiffs, cannot be traced directly to money paid by plaintiffs, and does not derive from the sale of plaintiffs' property. Accordingly, plaintiffs have no vested interest and their proposed model also fails under the UCL.

IV. CONCLUSION

For the foregoing reasons, Sirius XM respectfully requests that the Court grant its motion to exclude evidence and argument that Sirius XM's gross revenue is the appropriate measure of plaintiffs' damages.

Dated: September 30, 2016

Respectfully Submitted,

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UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

FLO & EDDIE, INC., a California corporation, individually and on behalf of all others similarly situated,

Plaintiffs,

v.

SIRIUS XM RADIO INC., a Delaware corporation, and DOES 1 through 10,

Defendants.

Case No. CV 13-05693 PSG (GJS)

Hon. Philip S. Gutierrez

[PROPOSED] ORDER GRANTING DEFENDANT SIRIUS XM RADIO INC.'S NOTICE OF MOTION AND MOTION IN *LIMINE* NO. 1/*DAUBERT* TO EXCLUDE TESTIMONY OF EXPERT MICHAEL WALLACE AND ANY OTHER EVIDENCE AND ARGUMENT THAT GROSS REVENUE ALONE IS AN APPROPRIATE MEASURE OF DAMAGES

Pretrial Conf. Date: Oct. 31, 2016
Trial Date: Nov. 15, 2016
Courtroom: 880

[PROPOSED] ORDER

The Court, having considered the papers and arguments submitted in support of and in opposition to Sirius XM Radio Inc.'s Motion in Limine No. 1, hereby orders that the motion is GRANTED. Plaintiff Flo & Eddie, Inc., and all other members of the class in this case, are barred from introducing expert opinion testimony from Michael J. Wallace and any other evidence or argument that gross revenue without deduction of costs is an appropriate measure of damages for plaintiffs' claims.

IT IS SO ORDERED.

Dated:

By: _____
PHILIP S. GUTIERREZ
United States District Judge

From: ECFdocuments@pacerpro.com
To: Jami L. Grounds
Subject: New documents: Flo & Eddie Inc v. Sirius XM Radio Inc et al (Doc# 474, C.D. Cal. 2:13-cv-05693-PSG-GJS)
Date: Friday, September 30, 2016 11:14:18 PM
Attachments: 2016-09-30 Notice Of Motion [dckt 474_0].pdf
2016-09-30 Notice Of Motion [dckt 474_1].pdf

Flo & Eddie Inc v. Sirius XM Radio Inc et al

Docket entry number: 474

NOTICE OF MOTION AND MOTION IN LIMINE NO.1 to Exclude Testimony of Expert Michael Wallace and any other Evidence and Argument that Gross Revenue alone is an Appropriate Measure of Damages filed by Defendant Sirius XM Radio Inc. (Attachments: # (1) Proposed Order)(Petrocelli, Daniel) (Entered: 09/30/2016)

Date entered: 2016-09-30

VIEW CASE

https://www.pacerpro.com/cases/4130