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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

OAKLAND DIVISION

ORACLE USA, INC., et al., Plaintiffs, v. SAP AG, et al., Defendants.	Case No. 07-CV-1658 PJH (EDL) **DECLARATION OF THARAN GREGORY LANIER IN SUPPORT OF REPLY IN SUPPORT OF DEFENDANTS' MOTION TO EXCLUDE EXPERT TESTIMONY OF PROFESSOR DOUGLAS G. LICHTMAN** Date: September 30, 2010 Time: 2:30 p.m. Courtroom: 3, 3rd Floor Judge: Hon. Phyllis J. Hamilton

I, THARAN GREGORY LANIER, declare as follows:

I am a partner in the law firm of Jones Day, 1755 Embarcadero Road, Palo Alto, California 94303, and counsel of record for Defendants SAP AG, SAP America, Inc. (together, "SAP"), and TomorrowNow, Inc. ("TN") (collectively, "Defendants") in the above-captioned matter. I am a member in good standing of the state bar of California and admitted to practice before this Court. I make this declaration based on personal knowledge and, if called upon to do so, could testify competently thereto.

1. Attached as **Exhibit 1** is a true and correct copy of *A&M Records, Inc. v. Napster, Inc.*, Nos. C 99-05183, C000074 MHP, 2000 WL 1170106 (N.D. Cal. Aug. 10, 2000).

2. Attached as **Exhibit 2** is a true and correct copy of *Charter Nat'l Bank v. Charter One Fin., Inc.*, No. 01 C 0905, 2001 U.S. Dist. LEXIS 13919 (N.D. Ill. Aug. 31, 2001).

3. Attached as **Exhibit 3** is a true and correct copy of *F.B.T. Prods. LLC v. Aftermath Records*, No. CV 07-3314 PSG (MANx), 2009 U.S. Dist. LEXIS 5981 (C.D. Cal. Jan. 20, 2009).

4. Attached as **Exhibit 4** is a true and correct copy of *Gable v. Nat'l Broad. Co.*, No. CV 08-4013 SVW (FFMx), 2010 U.S. Dist. LEXIS 77772 (C.D. Cal. Feb. 22, 2010).

5. Attached as **Exhibit 5** is a true and correct copy of *Mannick v. Kaiser Found. Health Plan, Inc.*, No. C 03-5905 PJH, 2006 U.S. Dist. LEXIS 38430 (N.D. Cal. June 9, 2006).

6. Attached as **Exhibit 6** is a true and correct copy of *Securities and Exchange Commission v. Leslie*, No. C 07-3444, 2010 U.S. Dist. LEXIS 76826 (N.D. Cal. July 29, 2010).

7. Attached as **Exhibit 7** is a true and correct copy of *Ticketmaster Corp. v. Tickets.com, Inc.*, No. CV 99-07654 HLH (VBKx), 2003 WL 25781901 (C.D. Cal. Feb. 10, 2003).

I declare under penalty of perjury under the laws of the United States and the State of California that the foregoing is true and correct. Executed this 16th day of September, 2010 in Palo Alto, California.

/s/ Tharan Gregory Lanier
Tharan Gregory Lanier

EXHIBIT 1

H
Only the Westlaw citation is currently available.

United States District Court, N.D. California.
A & M RECORDS, INC., et al, Plaintiff(s),
v.
NAPSTER, INC., Defendant(s).
Jerry LEIBER, individually and doing business as Jerry Leiber Music, et al, Plaintiff(s),
v.
NAPSTER, INC., Defendant(s).
No. C9905183MHP, C000074MHP.

Aug. 10, 2000.

Named Expert: Jay, Fine, Fader, Hall, Lessig, Tygar

MEMORANDUM AND ORDER RE ADMISSIBILITY OF EXPERT REPORTS

PATEL, Chief J.

***1** On July 3, 2000, in conjunction with its opposition to plaintiffs' motion for a preliminary injunction, defendant Napster, Inc. ("Napster") filed a motion to exclude the reports of plaintiffs' experts, Dr. E. Deborah Jay ("Jay Report") and Michael Fine ("Fine Report"). Defendant objected separately to the expert report of Dr. David J. Teece ("Teece Report"). Plaintiffs filed a brief opposing the exclusion of the Jay and Fine Reports on July 13, 2000. Plaintiffs also objected to three of defendant's expert reports-those of Dr. Peter S. Fader, Dr. Robert Hall, Professor Lawrence Lessig, and Dr. J.D. Tygar ("Fader Report," "Hall Report," "Lessig Report," and "Tygar Report," respectively). Plaintiffs request the exclusion of the first three reports in their entirety and object to certain portions of the Tygar Report.

After considering the parties' arguments, and for the reasons set forth below, this court now enters the following memorandum and order.

LEGAL STANDARD

I. *Federal Rules of Evidence*

Both the relevant case law and the parties' briefs make reference to three Federal Rules of Evidence-Rules 104, 403, and 702. Rule 104, governing general questions of admissibility, states:

> Preliminary questions concerning the qualification of a person to be a witness, the existence of a privilege, or the admissibility of evidence shall be determined by the court, subject to the provisions of subdivision (b) [pertaining to conditional admissions]. In making its determination it is not bound by the rules of evidence, except those with respect to privileges.

The trial judge initially must determine if the expert is proposing to testify to scientific or other specialized knowledge that "will assist the trier of fact to understand or determine a fact in issue." *Daubert v. Merrell Dow Phamaceuticals, Inc.,* 509 U.S. 579, 591, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993).

Rule 403 provides that, "[a]lthough relevant, evidence may be excluded if its probative value is substantially outweighed by danger of unfair prejudice, confusion of the issues, or misleading the jury or by considerations of undue delay, waste of time, or needless presentation of cumulative evidence."

Rule 702 applies to testimony by experts and states that:

> If scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education may testify thereto in the form of an opinion or otherwise.

In its landmark *Daubert* opinion, the Supreme Court held that Rule 702 does *not* embody the requirement that an expert opinion is inadmissible unless it is " 'generally accepted' as reliable in the relevant scientific community." *Daubert,* 509 U.S. at 584 (rejecting the test articulated in *Frye v. United States,* 293 F. 1013, 1014 (1923)); *see id.* at 597.

II. *Daubert Gatekeeping Obligations*

***2** In *Daubert,* the Supreme Court held that the Federal Rules of Evidence-particularly Rule 702-give the trial court the duty of ensuring that expert testimony is "relevant to the task at hand" and has a reliable basis in the knowledge and experience of the relevant discipline. *Daubert,* 509 U.S. at 597. To determine the relevance and reliability of scientific evidence, the *Daubert* Court said, the trial judge must undertake a flexible inquiry, focusing on the principles and methodology used, rather than the conclusions reached. *See id.* at 594-95. Several factors may bear on a judge's gatekeeping determination. These factors, include, but are not limited to, whether (1) the "theory or technique ... can be (and has been tested);" (2) the theory or technique "has been subjected to peer review and publication;" (3) the technique has a "known or potential rate of error;" (4) there are "standards controlling the technique's operation;" and (5) the theory or technique enjoys "general acceptance" within a "relevant scientific community." *Id.* at 592-94. The Supreme Court emphasized that it did not intend to create a "definitive checklist or test." *Id.* at 594; *Kumho Tire Co., Ltd. v. Carmichael,* 526 U.S. 137, 150, 119 S.Ct. 1167, 143 L.Ed.2d 238 (1999).

In *Kumho Tire,* the Supreme Court extended *Daubert* principles to the testimony of engineers and other technical experts who are not scientists. *See Kumho Tire,* 526 U.S. at 141. It held that the gatekeeping obligation *Daubert* imposed on trial courts applies to all expert testimony. *See Kumho Tire,* 526 U.S. at 147.

DISCUSSION

I. *Defendant's Objections*

A. *Jay Report*

Dr. E. Deborah Jay is the President and Chief Executive Officer of Field Research Corporation, which plaintiffs retained "to conduct a survey with a random sample of college and university students in order to identify persons who use Napster to download music." Jay Rep. at 1. Jay focused exclusively on college students because journalistic articles discussed college students using Napster. *See* Heather Mewes Dec., Exh. A (Jay Dep.) at 18:4-12, 22:2-13. The survey purported to track the reasons survey respondents used Napster, *see* Jay Rep. at 13-14, and the impact of Napster on their music purchases. *See id.* at 15-16.

Defendant challenges the admissibility of the Jay Report on the ground that the survey was fatally under-inclusive because it only surveyed college or university students without obtaining data on the extent of Napster use outside colleges and universities. In her deposition, Jay admitted that she did not analyze non-college Napster use or have any information about it. *See id.* at 24:15-25, 25:1-2. She did not know the median age of Napster users. *See id.* at 17:25-18:1. Jay also stated that she could project her results to the universe of college users, but declined to project them to Napster users as a whole. *See id.* at 24:15-25:9.

***3** Defendant contends that the proper universe for determining lost sales or injury to plaintiffs is *all* of plaintiffs' customers, not merely those who currently attend college or university. According to Napster, "if Napster users other than college students were increasing sales sufficient to offset any purported loss among college students ..., Plaintiffs' claim of harm would evaporate." Def.'s Mot. to Exclude Jay Rep. at 2.

In opposing defendant's motion to exclude the Jay Report, plaintiffs primarily argue that (1) defendant's criticisms of the report are invalid, and (2) objections to survey methodology affect the weight, rather than the admissibility of evidence.[FN1] According to plaintiffs, Napster executives themselves have opined that college students constitute the target demographic and the largest portion of Napster users. *See* Pl.'s Opp. to Def.'s Mot. to Exclude Jay Rep. at 3 (citing Fanning Dep. at 303:9-11, Brooks Dep. at 145:10-12, and Richardson Dep. at 246:13-14). Plaintiffs contend that, because college students represent an important segment of both Napster users and the record-buying public, survey results showing a linkage between college Napster use and a decline in college record sales is probative of plaintiffs' harm.

FN1. Plaintiffs also contend that Napster's motion is improper because it violates this court's rule prohibiting separate motions to strike. *See* Rules of the Hon. Marilyn Hall Patel, at Addendum I. The court considers this argument disingenuous and will disregard it because plaintiffs have also filed separate motions to strike the opinions of Drs. Fader, Hall, and Tygar and Professor Lessig.

Identification of the relevant target population or universe constitutes one of the first steps in designing a survey; the researcher must design that universe carefully. *See Reference Manual on Scientific Evidence* 235 (Fed. Judicial Ctr.1994). Although Jay appears to have chosen her target population from only a portion of the Napster user base, depositions of Napster executives corroborate the media reports upon which she relied. For example, Elizabeth Brooks testified, “We believes [sic] ourselves to have a high college demographic, and beyond that to be primarily [ages] 12 to 24.” Julia Greer Reply Dec. (Brooks Dep.) at 145:10-12 Defendant has failed to produce persuasive evidence that college or university students do *not* constitute a significant percentage of Napster users. Even if a statistic cited by defendant's expert Dr. Peter S. Fader were to be believed, college students still account for about a quarter of Napster's users. *See* Dec. of David Lisi (Fader Rep.) ¶ 49. The court recognizes the Jay Report for what it is-a report that looks at only one segment of the Napster user population. That segment is significant, and the court finds evidence of lost sales attributable to college use to be probative of irreparable harm for the purposes of the preliminary injunction motion.

Defendant misreads Ninth Circuit case law on the impact of *Daubert* on methodological flaws in surveys. The Ninth Circuit has stated that “[c]hallenges to survey methodology go to the weight given the survey, not its admissibility.” *Wendt v. Host Int'l, Inc.,* 125 F.3d 806, 814 (9th Cir.1997) (holding that exclusion of survey about trademark confusion was not abuse of discretion). Far from providing that methodological flaws render a survey inadmissible, the court in *Southland Sod Farms v. Stover Seed Co.,* 108 F.3d 1134 (9th Cir.1997), specifically stated: “Unlike novel scientific theories, a jury should be able to determine whether asserted technical deficiencies undermine a survey's probative value.” *Id.* at 1143 n. 8; *see also Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.,* 780 F.Supp. 1283, 1296 (N.D.Cal.1991), *aff'd,* 964 F.2d 965 (9th Cir.1992) (holding that alleged under-inclusiveness of survey in copyright infringement action affected “the weight of the survey, not its admissibility”), *cert. denied,* 507 U.S. 985, 113 S.Ct. 1582, 123 L.Ed.2d 149 (1993).

***4** Defendant cites several district court cases outside the Ninth Circuit for the proposition that methodological flaws in surveys render them inadmissible under *Daubert* and *Kumho Tire. See e.g ., Winning Ways, Inc. v. Holloway Sportswear, Inc.,* 913 F.Supp. 1454, 1467 (D.Kan.1996) (holding that under-inclusiveness of survey rendered it inadmissible); *Toys “R” Us, Inc. v. Canarsie Kiddie Shop, Inc.,* 559 F.Supp. 1189, 1204 (E.D.N.Y.1983) (stating that failure to satisfy one or more criteria for trustworthiness of surveys, including definition of the proper universe, may lead to exclusion of the survey). These cases do not constitute controlling authority, and the court may disregard them. Here, the choice of the universe is but one potential flaw in a survey that otherwise comports with the applicable standards.

The Jay Report is probative of irreparable harm and will be admitted. The court need not opine whether the report is probative of damages, as that issue has not yet ripened.

B. *Fine Report*

Plaintiffs engaged Michael Fine-the Chief Executive Officer of Soundscan-to determine the effect of online sharing of MP3 files. *See* Fine Rep. at 1. They seek to introduce his report as evidence of irreparable harm, not to establish a specific amount of monetary damages. *See* Pl. Opp. to Def.'s Mot. to Exclude Fine Rep. at 5.

Fine's study examined retail music sales trends in three types of stores in the United States: (1) all stores located within one mile of any college or university on a list acquired from Quality Education Data; FN2 (2) all stores located within one mile of any college or university on a list of colleges and universities that have banned Napster use; FN3 (3) all stores within one mile of any college or university listed among the "Top 40 Most Wired Colleges in 1999," according to Yahoo Internet Life. FN4 Researchers working on the Fine Report used Soundscan Point of Sale data to compare music sales totals from the latter two categories with (1) national totals and (2) sales from the first category, "All College Stores." The report tracked retail sales in the first quarter ("Q1") of 1997, 1998, 1999, and 2000. Napster was not online until the final data point, Q1 2000. *See* Def.'s Mot. to Exclude Fine Rep. at 5; Mewes Dec., Exh. B (Fine Dep.) at 24:1-8.

FN2. 4,454 schools and 2099 stores. *See* Fine Rep. at 5.

FN3. 67 schools and 48 stores. *See id.* Fine admits that he did not check to see why the schools banned Napster. *See* Mewes Dec., Exh, B (Fine Dep.) at 58:8-10.

FN4. 40 schools and 44 stores. *See* Fine Rep. at 5. Fine concedes that he did not verify the accuracy of the Yahoo Internet Life report. *See* Mewes Dec., Exh. B (Fine Dep.) at 17:15-17.

After examining the data, Fine concluded that "on-line file sharing has resulted in a loss of album sales within college markets ." Fine Rep. at 1. While national sales grew "significantly and consistently" in the quarters he studied, sales at stores near colleges or universities declined, with sales in the "Top 40 Most Wired Colleges" and "Napster-banned" subsets showing an even sharper decline than those in the "All College Stores" category. Fine's conclusions were not limited to Napster, but rather assessed the effects of online file sharing in general. *See id.;* Pl.'s Opp. to Def.'s Mot. to Exclude Fine Rep. at 7.

***5** Defendant argues that the Fine Report should be excluded because it employed a flawed methodology. First, the report failed to consider all causal factors in the decline of retail music sales. Specifically, it did not account for the possible effects of Internet record sales on sales in retail stores. Defendant contends that the fact that the report shows a decline in retail sales beginning in Q1 1999-*before* Napster came into existence-demonstrates that some factor besides Napster caused a decline in music sales in retail stores. Second, Fine compared weighted national sales numbers with raw numbers from the three college-related categories. Defendant maintains that this method of comparing the college sub-populations with national sales was invalid. Moreover, Soundscan's proprietary database is not subject to peer review. Thus, according to defendant, Fine's research results must be excluded pursuant to *Daubert* and *Kumho Tire.*

Plaintiffs respond that Fine had valid, practical reasons for excluding Internet sales data. First, because he could not determine the location of Internet purchasers, he could not adjust the data for sales at college stores (which were identified geographically) to include Internet sales. Second, plaintiffs claim that Internet sales volume is *de minimis* compared to retail sales. Internet sales purportedly account for only one percent of national sales, if sales by Amazon.com are excluded. *See* Pl.'s Opp. to Def.'s Mot. to Exclude Fine Rep. at 6 n. 4. Third, Fine excluded Internet sales from all his comparisons.

As to defendant's other objections, plaintiffs note that Fine averred that the use of weighted national sales data was necessary because Soundscan does not have contracts with every retail outlet. His results were computed as percentages, rather than actual dollar values. According to Fine, the use of percentages means that weighting has no absolutely no effect on the results. *See* Mewes Dec., Exh. B (Fine Dep.) at 42:4-14. Finally, plaintiffs dispute defendant's assertion that the Fine Report is inadmissible under *Daubert* and *Kumho Tire* because the proprietary nature of the Soundscan database makes it unavailable for peer review.

The court finds some aspects of the Fine Report troubling-especially the fact that its shows a decline in retail sales *prior* to the launching of Napster. This limitation, combined with Fine's decision not to track Internet music sales, reduces the study's probative value. The court nevertheless declines to exclude the Fine Report. The primary case upon which defendant relies, *McGlinchy v. Shell Chemical Co.,* 845 F.2d 802 (9th Cir.1988), involved the exclusion of expert studies that posed a great danger of misleading a *jury* about the proper amount of *damages* . In contrast, plaintiffs offer the Fine Report to aid the court in determining whether they have suffered irreparable harm. Although the Fine Report may not be probative of the exact amount of damages, the court does not confront that question now.

***6** The Ninth Circuit has expressed confidence in a jury's ability to decide whether asserted technical deficiencies undermine the probative value of non-scientific expert studies. *See Southland Sod Farms,* 108 F.3d at 1143 n. 8. Certainly then, the court can determine the proper weight to give the Fine Report. The danger of confusion is reduced because the Fine Report does not make claims beyond the limits of its methodology; Fine admits that his conclusions encompass all music file-sharing, not just that facilitated by Napster.

The court also rejects defendant's contention that the proprietary nature of the Soundscan's software system mandates exclusion under *Daubert.* Soundscan is widely used in the recording industry to track music sales, and plaintiff apparently made the software available to defendant to run its own tests. Although publication or some other form of peer review is a pertinent consideration, the Supreme Court specifically noted that this factor is not dispositive of reliability. *See Daubert,* 509 U.S. at 594. Accordingly, this court declines to exclude the Fine Report, insofar as it is offered to show irreparable injury.

C. *Teece Report*

Defendant objects to the entire Teece Report under the *Daubert* standard, Rule 702, and Rule 403. Plaintiffs engaged Teece to analyze the way that Napster, Inc. benefits from value creation for Internet companies; whether plaintiffs have suffered or are likely to suffer harm in their existing and planned businesses due to defendant's activities; and the importance of intellectual property protection to the United States' economy. *See* Teece Rep. at 2.

The court finds no fault with Teece's expert qualifications. Teece earned a Ph.D. in Economics from the University of Pennsylvania in 1975. *See id.* at 1. He is currently a professor at the Haas School of Business and Director of the Institute for Management Innovation and Organization at the University of California, Berkeley. *See id.* He also directs an international economics consulting firm that he co-founded in 1988. *See id.*

Teece examined depositions and documents produced in conjunction with this litigation, as well as outside studies and media reports. His conclusions were drawn from consideration of Napster, Inc.'s internal documents. Although the Teece Report has not undergone peer review, it is not the type of document that is ordinarily subject to such scrutiny. *See Daubert,* 509 U.S. at 594 (stating that peer-review factor is not dispositive). The Teece Report comports with the standards that professional economists generally follow. Accordingly, defendant's objections to it are overruled.

II. *Plaintiffs' Objections*

A. *Fader Report*

A tenured Associate Professor of Marketing at the Wharton School of the University of Pennsylvania, Dr. Peter S. Fader specializes in using data generated by new information technology, such as the Internet, to assist companies in developing marketing strategies. *See* Lisi Dec. (Fader Rep.) ¶¶ 1-2. He considers himself an expert on consumer surveys. *See* Greer Dec. of July 13, 2000, Exh. 1 (Fader Dep.) at 28:18-20. However, he admitted in his deposition that he has never before prepared a consumer survey for litigation and he is unfamiliar with the standards set forth by federal courts for the reliability of such surveys. *See id.* at 20:8-9, 35:14-18.

***7** The Fader Report concludes that Napster is beneficial to the music industry because MP3 music file-sharing stimulates more compact disc sales than it displaces. *See* Lisi Dec. (Fader Rep.) ¶¶ 6-8. Fader relied on three types of evidence to reach this conclusion: (1) analysis of media reports, surveys, and other reports prepared and authored by other people; (2) a survey, conducted by Greenfield Online, over which Fader exercised some supervisory control; and (3) Fader's analysis and criticism of the Jay and Fine Reports.

The centerpiece of the Fader Report is the Greenfield Online survey, which Fader purportedly designed and oversaw. *See id.* ¶ 65. He cited the Greenfield survey as evidence that Napster use is associated with overall increases-rather than decreases-in CD purchases. *See* Lisi Dec. (Fader Rep.) ¶ 67. The Greenfield Online profile describes the company as “the pioneer in using the Internet for marketing research.” *Id.* Exh. C ¶ 1. However, in his deposition, Fader stated that his knowledge of Greenfield's purported expertise came from representations that Greenfield itself made. *See* Greer Dec., Exh. 1 (Fader Dep.) at 226:19-25, 227:1-2.

Greenfield maintains a proprietary database of over 500,000 registered panel members. To choose a survey sample from this panel, Greenfield relied on Forrester Research Inc.'s Year 2000 Benchmark survey of 80,000 offline and online individuals in the United States. *See* Lisi Dec. (Fader Rep.), Exh. C ¶ 2. The Forrester Benchmark survey was used to assign a sample weight to panel members. *See id.* Fader admitted under oath that he had never seen the Forrester Benchmark survey, nor does he know how it was conducted. *See* Greer Dec. (Fader Dep.) at 236:17-25, 237:1-2, 241:19-23, 242:1-2.

After choosing its sample, Greenfield sent an invitational letter to a “randomly-selected, Internet-representative sample of 35,000 panel members” who were not informed about the purpose of the survey. *See* Lisi Dec. (Fader Rep.), Exh. C ¶ 2. While the Fader Report states that letter recipients “did not receive any incentive to participate,” *id.*, Greenfield offers potential members of its larger panel chances to win sweepstakes and other incentives to join. *See* Greer July 13, 2000 Dec., Exh. 1 (Fader Dep.) at 245:18-22. Fader never reviewed a copy of the invitation letter. *See id.* at 244:8-9.

Of the 12,940 persons who completed the survey questionnaire, 8,517 were included in the Fader Report according to age, residence, familiarity with downloading MP3 files, and completion of the entire survey. *See* Lisi Dec. (Fader Rep.), Exh. C ¶ 3. Fader admitted at his deposition that he does not believe survey responses were validated to insure that the person who answered the questions was the one to whom the survey was sent. *See* Greer July

13, 2000 Dec ., Exh. 1 (Fader Dep.) at 254-24-25, 255:1-3.

Plaintiffs object to the Greenfield survey on the ground that it was not conducted according to recognized standards governing the reliability of surveys offered as evidence in litigation. The greater problems, in this court's view, are that Fader played a minimal role in overseeing the administration of the survey, and his report contains almost no tables or other objective data about the survey respondents and their answers. Defendant admitted at the preliminary injunction hearing that Exhibit 7 to the Fader Report constitutes the only objective, statistical breakdown of the Greenfield survey, aside from Fader's own characterization of the results. This lack of data prevents the court from conducting its own impartial review of the survey pool and responses. Furthermore, Fader contracted the work on the Greenfield survey to a company about which he knew relatively little and did not review key documents, such as the invitation letter or the Forrester Benchmark survey. In short, his claim to have designed and overseen the Greenfield survey appears exaggerated, and the generality of his report renders it of dubious reliability and value.

***8** Aside from the Greenfield study, Fader primarily relied on newspaper and magazine articles that he did not write or research and studies that he did not conduct. For example, to support his contention that college students do not constitute the majority of Napster users, he cited two reports: the Pew Internet & American Life Project, *Internet Tracking Report* ("Pew Report"), June 8, 2000; and Cyberdialogue, Inc., *Cybercitizen Entertainment Continuous Advisory Service: CyberBits Trend Report,* No. 1, 2000. *See* Lisi Dec. (Fader Rep.) ¶ 49. He admitted in his deposition that he does not know how the Pew Report selected its participants or whether it followed proper survey methodologies. *See* Greer July 13, 2000 Dec. (Fader Dep.) at 136:15-24, 160:16-22. The "chorus of data refuting plaintiffs' finding of substantial negative impact on music purchasing" also turns out to be a handful of studies and surveys conducted by others. *See* Lisi Dec. (Fader Rep.) ¶¶ 36-45. Fader appears to have limited knowledge of how these surveys were conducted. For instance, he conceded in his deposition that he had not seen the interview instructions for a 1999 survey by Digital Mogul and CENTRIS, nor could he vouch for its methodological rigor. *See* Greer July 13, 2000 Dec. (Fader Dep.) at 141:17-25, 142:10-16.

Given these limitations, the court finds that Fader cannot attest credibly that the surveys upon which he relied (including the Greenfield survey) conformed to accepted survey principles. Nor is the court willing to rely on opinions based on information reported in newspapers and magazines. Although plaintiffs' motion to exclude the Fader Report is denied, the court chooses not to rely on Fader's findings in determining the issues of fair use and irreparable harm.

B. *Lessig Report*

Plaintiffs challenge the Lessig Report because they believe it constitutes inadmissible legal opinion. Lawrence Lessig is a Professor of Law at Stanford Law School. *See* Lisi Dec. (Lessig Rep.) ¶ 2. He has written extensively in the field of Internet regulation, *see id.* ¶ 3, but he is not formally trained in computer science or computer programming. *See id.* ¶ 6. He states that the expertise he brings to this case lies "in understanding the relationship between law and technology." *Id.* His report expresses the view that this court should follow the Supreme Court's approach of considering the practical effect of legal regulation on Internet technology before wielding its injunctive power. *See id.* ¶¶ 10-11.

The Ninth Circuit does not allow attorneys to testify about the applicable law. *See Aguilar v. International Longshoreman's Union Local No. 10,* 966 F.2d 443, 447 (9th Cir.1992). Treatises also opine that expert legal testimony is inadmissible. *See* McCormick on Evidence § 12, at 31 (E. Cleary's Lawyer, 3d ed.1984); VII Wignmore on Evidence §

1952, at 81. The Lessig Report merely offers a combination of legal opinion and editorial comment on Internet policy. Therefore, this court grants plaintiffs' motion to exclude it.

C. *Hall Report*

***9** Dr. Robert E. Hall is a tenured Professor of Economics at Stanford University and a Senior Fellow at the Hoover Institution. *See* Lisi Dec. (Hall Rep.) ¶ 1. The parties do not dispute Hall's qualifications as an expert in economics. Defendant offers the Hall Report to show that Napster will not reduce plaintiffs' profits in the near future, whereas "shutting down" Napster with a preliminary injunction creates a significant probability that Napster will lose most of its value. *See id.* ¶ 6. Hall reasons that Napster promotes more sales than it displaces. *See e.g., id.* ¶ 31.

Plaintiffs challenge the Hall Report on two broad bases. First, they contend that Hall failed to consider evidence that was inconsistent with his position. Specifically, he disregarded the Jay Report, ignored relevant data in studies by the University of Southern California and *Rolling Stone* magazine, and attacked aspects of the Fine Report showing that music sales near college campuses were lower than the national average. Plaintiffs cite *Concord Boat Corp. v. Brunswick Boat Corp.,* 207 F.3d 1039, 1056-57 (8th Cir.2000) to show that other courts have criticized Hall for ignoring inconvenient evidence. Plaintiffs also point to passages in Hall's deposition indicating that he neglected to consider the Jay Report, which he obtained and even cited, and that in retrospect, he thought his analysis of the USC Study was "not completely fair." Pl.'s Mot. to Exclude Hall Rep. at 6-7 & n. 4.

Second, plaintiffs contend that the Hall Report is irrelevant, insofar as it discusses the potential hardship created by "shutting down" Napster. Plaintiffs note that they do not seek to preliminarily enjoin *all* of Napster's activities-for example, they do not object to the chat room, the New Artist Program, the news feature, or the instant messaging.

The court agrees that Hall relied too heavily on outside studies that favored defendant without performing any analysis of the Jay Report. However, these shortcomings are not grave enough to warrant exclusion of his expert opinion. Insofar as the Hall Report assumes the requested injunction would put defendant out of business, it tends to corroborate plaintiffs' argument that Napster has no legitimate non-infringing uses. Since this conclusion benefits plaintiffs, they would be wise not to object too strenuously to admission of the Hall Report.

D. *Tygar Report*

Dr. J.D. Tygar is a tenured Professor of Engineering and Computer Science at the University of California, Berkeley. He is an expert in software engineering, computer security, and cryptography. *See* Lisi Dec. (Tygar Rep.) at 1. He offers conclusions about, *inter alia,* Napster's ability to detect and prevent infringement. Plaintiffs make individual objections to the conclusions offered in his report.

1. *Conclusion 1: Comparability of Napster Software to Cassette Decks*

In Conclusion 1 of his report, Tygar likens Napster to cassette decks, VCRs, digital audio tape recorders and other devices because of its ability to reproduce music. Plaintiffs challenge this opinion on the grounds of relevance and lack of foundation in either empirical evidence or expertise. The court sustains this objection. The instant litigation is not confined to Napster's software, but encompasses the entire system that defendant Napster, Inc. operates. The court has indicated previously that it considers Napster's search engine to be part of the Napster system. *See A & M Records, Inc v. Napster,* 2000 WL 57136, at *6 (N.D.Cal. May 12, 2000). As plaintiffs note, cassette decks do not perform search functions. Tygar's deposition testimony reveals that he did not conduct any tests to determine whether cassette decks or the other devices he mentioned are capable of performing critical Napster functions like searching and indexing. Many of them clearly do not perform such tasks. Accordingly, Conclusion I will be struck in its entirety.

2. *Conclusion 2: Applicability of 17 U.S.C. Section 512(a)*

***10** In Conclusion 2, Tygar opines that Napster is similar to "existing file sharing techniques" like the search engines Lycos and Alta Vista, email, and the World Wide Web-among others. He further states that he believes Napster qualifies for the safe harbor in 17 U.S.C. section 512(a). *See* Lisi Dec. (Tygar Rep.) at 26. Tygar's opinions in Conclusion 2 conflict with this court's ruling on defendant's motion for summary adjudication. *See A & M Records, Inc v. Napster,* 2000 WL 57136, at *7-8 (N.D.Cal. May 12, 2000). There, the court expressly held that section 512(a) does not cover Napster because, unlike protected Internet service providers, Napster does not act as a mere conduit for file sharing. *See id.*

Lay persons may not offer expert testimony about the content of the law. *See, e.g., United States ex rel Oliver v. Parsons Co.,* 195 F.3d 457, 462 (9th Cir.1999), *cert. denied,* __U.S.__, 102 S.Ct. 2657 (2000); *Crow Tribe of Indians v. Racicot,* 87 F.3d 1039, 1045 (9th Cir.1996). Such testimony is especially inappropriate when it conflicts with past rulings of the court. Therefore, Conclusion 2 is inadmissible.

3. *Conclusion 3: Access to Copyright Information and Ability to Obtain Authorization from Copyright Owners*

According to Conclusion 3, Napster cannot distinguish copyrighted material restricted by the owner from either uncopyrighted material or copyrighted material for which the owner or the law permits free distribution. Tygar further opined that it would be "technically infeasible" to require Napster to obtain information from the rights-holder before providing access to the material. *See* Lisi Dec. (Tygar Rep.) at 28. At his deposition, Tygar clarified that, by "Napster," he meant the computer program, rather than the defendant company. *See* Greer July 13, 2000 Dec. (Tygar Dep.). at 84:3-10.

Plaintiffs first challenge Tygar's opinion regarding Napster's ability to identify copyrighted material on the ground that it does not reflect "good science" under *Daubert.* They object that Tygar did not interview Napster employees or conduct any empirical research about rights-checking. *See id.* at 172:14-25, 173:1-2. He also failed to confer with his peers in the field of computer science. *See id.* at 172:6-13, 175:11-14. At his deposition, he characterized his research as qualitative, rather than quantitative. *See id.* at 175:9-10.

Plaintiffs also argue that Tygar's opinion on Napster's ability to obtain information about copyrights must be excluded because it is not the product of his expertise as a computer scientist. According to plaintiffs, Tygar does not understand (and hence cannot offer opinions about) how other copyright users like radio and television stations obtain authorizations. Tygar does not discuss these other channels of distribution, however. As plaintiffs note, he generally limits his conclusions to the capabilities of the Napster computer program.

***11** The court overrules plaintiffs' objection to the extent that Conclusion 3 discusses whether the Napster system can determine if a given MP3 file has been pre-authorized for distribution. Tygar's failure to give a more detailed explanation of how he analyzed the Napster service bothers the court; however, given his expert qualifications, this shortcoming does not warrant excluding his report. However, speculation on pages 32 and 33 about the ability of humans to check for pre-authorization lies beyond the scope of Tygar's expertise and must be excluded.

4. *Conclusion 4: Napster's Ability to Check Authorizations*

Plaintiffs object to this conclusion because it does not encompass other methods of checking authorizations “both on the Internet and in the real world.” Pl.'s Mot. to Exclude Tygar Rep. at 8. However, Conclusion 4 is limited to the ability of the Napster computer program to check authorizations. This lies within Tygar's expertise as a computer scientist. The court therefore overrules plaintiffs' objection.

5. *Conclusion 5: Authorization Would Change the Web to a “Centralized Utility”*

Conclusion 5 merely amounts to editorial comment on Internet policy. It does not appear to be based on any research or expertise. Because it does not aid the trier of fact, it will be excluded.

6. *Conclusion 6: Watermarking Could Carry Rights Information with a Recording*

Plaintiffs object that Conclusion 6 is irrelevant because the preferred watermarking standard is not an issue in this case. The court disagrees. Because Napster has raised acquiescence and waiver as defenses, Tygar's expert opinion about the recording industry's failure to develop technologies to protect its copyrights has relevance. The court overrules plaintiffs' objection.

7. *Conclusion 7: Napster's Ability to Tell Whether a Use of the System is Infringing*

Here, Tygar speculates about possible legitimate uses of the Napster system. While this opinion is relevant to defendant's fair use defense, neither a lay person nor an attorney may presume to instruct the court in the law. Accordingly, Conclusion 7 is inadmissible.

CONCLUSION

For the foregoing reasons, defendant's motion to exclude the Jay Report and the Fine Report is DENIED. The court also DENIES plaintiffs' motion to exclude the Fader Report and the Hall Report, but GRANTS plaintiffs' motion to exclude the Lessig Report. Plaintiffs' motion to exclude the Tygar Report is GRANTED as to Conclusions 1, 2, 5, 7, and the portion of Conclusion 3 on pages 32-33 that deals with humans' ability to check for preauthorization. The court deems the remainder of the Tygar Report to be admissible.

IT IS SO ORDERED.

N.D.Cal.,2000.
A & M Records, Inc. v. Napster, Inc.
Not Reported in F.Supp.2d, 2000 WL 1170106 (N.D.Cal.)

END OF DOCUMENT

EXHIBIT 2

LEXSEE 2001 U.S. DIST. LEXIS 13919

CHARTER NATIONAL BANK and TRUST, Plaintiff, v. CHARTER ONE FINANCIAL, INC., CHARTER ONE BANK, FSB and ST. PAUL FEDERAL BANK FOR SAVINGS, Defendants.

No. 01 C 0905

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION

2001 U.S. Dist. LEXIS 13919; 65 U.S.P.Q.2D (BNA) 1684

August 31, 2001, Decided
September 4, 2001, Docketed

DISPOSITION: [*1] Motion for a Preliminary Injunction brought by Charter National Bank & Trust denied. Defendant's motion to disqualify the testimony of Professor Douglas Lichtman granted.

COUNSEL: For CHARTER NATIONAL BANK & TRUST, plaintiff: Alan R. Lipton, Richard B. Polony, Hinshaw & Culbertson, Chicago, IL.

For CHARTER NATIONAL BANK & TRUST, counter-defendant: Alan R. Lipton, Richard B. Polony, Hinshaw & Culbertson, Chicago, IL.

JUDGES: Wayne R. Andersen, United States District Judge.

OPINION BY: Wayne R. Andersen

OPINION

MEMORANDUM, OPINION AND ORDER

This case is before the Court on the Motion for a Preliminary Injunction brought by plaintiff Charter National Bank & Trust. After consideration of our original order granting in part a temporary restraining order, several days of testimony, hundreds of exhibits and hundreds of pages of legal briefs, we deny plaintiff's motion.

BACKGROUND

On May 15, 2001, we entered a Memorandum, Opinion and Order in which we granted in part and denied in part plaintiff's motion for a temporary restraining order. This case involves a trademark dispute. Plaintiff, Charter National Bank & Trust, currently operates three branches in Hanover Park, Hoffman Estates [*2] and Schaumburg, Illinois. Defendant, Charter One, is a large interstate bank, chartered federally, which operates approximately 70 branches in the Chicago area.

Plaintiff argues that is has acquired common law rights in the mark "charter." Therefore, we attempted to determine the date it began using the mark. Although we requested a specific time line, plaintiff was unable to demonstrate the exact date upon which it began using the name Charter Bank and Trust of Illinois at the Hanover Park facility. The parties agree that plaintiff began using that mark sometime in 1986. Since 1987, it has displayed a large sign in front of the Hanover Park branch with the words "Charter Bank". In 1993, it acquired the Hoffman Estates and Schaumburg branches. Since 1993, those branches have displayed large signs with the words "Charter Bank". Although plaintiff never registered it's mark, it claims to have acquired a common law right in the term "Charter Bank" because it has continuously operated banking establishments using that mark since 1987.

However, plaintiff has changed its legal name several times. It originally operated under the name Hanover Park State Bank. In 1986, it began using the [*3] mark "Charter Bank and Trust of Illinois." In 1993, Charter Bank and Trust of Illinois was acquired by the First National Bank of Hoffman Estates. The combined entity began to use the mark "Charter Bank and Trust, N.A." In 1996, plaintiff began using the mark "Charter National Bank & Trust." During the preliminary injunction hearing we heard testimony that customers have referred to the entity as "Charter Bank" from 1987 to the present.

Defendant, Charter One, operates on a national scale. It filed a federal registration for the mark "Charter One" before the United States Patent and Trademark Office on October 10, 1990. It has continuously operated under that trade name since its registration. Charter One made its first foray into the Chicago market by acquiring St. Paul Federal Bank for Savings in 1999. Between the acquisition and January 2001, it operated St. Paul's fifty-eight Chicago locations under the trade name "St. Paul." In January of 2001, defendant announced that it was changing its name in the Chicago market from St. Paul to Charter One Bank.

On February 6, 2001, counsel for plaintiff Charter National Bank and Trust sent a letter to Charter One demanding that it cease [*4] using the mark "charter" because his client asserted common law rights as the senior user in Chicago area. Because Charter One continued use its name, plaintiff filed the instant lawsuit on February 8, 2001, seeking injunctive relief. While this court was analyzing the motion for a temporary restraining order, defendant agreed to refrain from displaying the mark "Charter One" on the outside of branches in a geographic area surrounding Charter National Bank and Trust's three branches. On May 15, 2001, we granted in part and denied in part plaintiff's motion for a temporary restraining order. We held that plaintiff had shown a reasonable likelihood of success on the merits based on its submission of evidence of brochures, advertisements, signs and evidence of actual confusion. Therefore, we entered a TRO which prohibited Charter One from "operating any type of bank facility using the word 'charter' on any outdoor signs within the geographic area between Lake Cook Road, on the north, I290, I355/Illinois 53, on the east, North Avenue, on the south, and the Fox River, on the west."

DISCUSSION

In order to determine whether to grant a preliminary injunction, we must find that [*5] the moving party has demonstrated: (1) a reasonable likelihood of success on the merits, and (2) no adequate remedy at law. *Mil-Mar Shoe Co., Inc. v. Shonac Corp., 75 F.3d 1153, 1156 (7th Cir. 1996)*. If the moving party successfully establishes those criteria, then we consider: (3) the irreparable harm the non-moving party will suffer if the injunction is granted balanced against the irreparable harm the moving party will suffer if the injunction is denied, and (4) the effect our action will have on the public interest. *Id.* "If it is plain that the party seeking the preliminary injunction has no case on the merits, the injunction should be refused regardless of the balance of the harms." *Green River Bottling Co. v. Green River Corp., 997 F.2d 359, 361 (7th Cir. 1993)*.

Trademarks are generally classified into five categories of increasing distinctiveness: (1) generic, (2) descriptive, (3) suggestive, (4) arbitrary and (5) fanciful. *Two Pesos Inc. v. Taco Cabana, Inc., 505 U.S. 763, 767-68, 120 L. Ed. 2d 615, 112 S. Ct. 2753 (1992)*. Defendant contends that "charter", as applied to banking services, is generic. In order to proceed [*6] to the next step in our analysis, plaintiff must convince this court that it has a reasonable likelihood of showing that "charter" is at least descriptive because generic marks receive no trademark protection. *Id.* Plaintiff contends that the term "charter" is at least entitled to the protection accorded to suggestive marks. Plaintiff bears the burden of showing that its mark can be protected because it has failed to federally register its mark. *Technical Publishing Co. v. Lebhar-Friedman, Inc., 729 F.2d 1136, 1139 (7th Cir. 1984)*. After extensive analysis, we have determined that use of the term "charter" to denote banking services is either generic or descriptive use and, therefore, we will examine both classifications.

A generic term is one that is commonly used to name or designate a kind of good. *Liquid Controls Corp. v. Liquid Control Corp., 802 F.2d 934 (7th Cir. 1986)*. A generic term specifies the type of thing in common parlance. *Gimix, Inc. v. JS & A Group, Inc., 699 F.2d 901, 905 (7th Cir. 1983)*. A descriptive mark describes the ingredients, qualities or characteristics of the good or service. *Id.* The difference [*7] between "generic" and "descriptive" terms is the degree of distinctiveness and their relative ability to serve as a source-identifier of particular goods and services. *Mil-Mar, 75 F.3d at 1158*.

However, plaintiff contends that its mark is at least suggestive. The Seventh Circuit has applied a test to determine whether a mark is descriptive or suggestive. "If the mark imparts information directly, it is descriptive. If it stands for an idea which requires some operation of the imagination to connect it with the goods, it is suggestive." A. Seidel, S. Dalroff, and E. Gonda, *Trademark Law and Practice* § 4.06, at 77 (1963)(quoted in *The Money Store v. Harriscorp Finance, Inc., 689 F.2d 666, 673-74 (7th Cir. 1982)*; *Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 952 (7th Cir. 1992)*. The question we must consider is how much imagination, if any, is necessary to connect charter with banking services.

The parties have submitted a myriad of definitions beginning with plaintiff's counsel's recitation of a portion of the Magna Carta in his closing. Webster's International defines a charter as "1: written instrument or contract [*8] (as a deed) executed in due form, 2a: an instrument in writing from the sovereign power of a state or country granting or guaranteeing rights, franchises, or privileges b: an instrument in writing creating and defining the franchises of a city, university, company, or other public or private corporation. *Webster's Third New International Dictionary* 378 (3rd ed. 1993). Webster's Collegiate contains the identical definition. *Webster's Ninth New Collegiate Dictionary* 228 (9th ed. 1990).

What we must decide is whether the term "charter" requires so much imagination to link it to a bank that the term should be protected. All parties agree that banks must be chartered by either the state or federal government. Illinois law refers to "national charter banks and banks organized in other states" as categories of banks. *205 ILCS 5/13*; 20 Ill. Reg. 1939. The United States Code refers to "chartered bank" as a category of bank throughout the code. See *12 U.S.C.A. § 29*, *12 C.F.R. § 263.81(d)*, 12 U.S.C.A. § 266, *12 U.S.C.A. § 1841*, *12 U.S.C.A. § 2902*, *12 U.S.C.A. 3106* [*9] *(a)(C)*, *12 U.S.C.A. 1817*. Furthermore, defendant has conducted a variety of searches including a Lexis-Nexis search and a search of Yellow Pages over the world wide web. Through the Lexis search, defendants have unearthed a large number of articles describing "charter" banks as a type of bank. The sources on these articles run the gamut from popular news periodicals, like the Fresno Bee and the Tulsa World, to more specific business periodicals like Texas Banking. However, given the large number of popular press references to "charter" banks that defendant was able to unearth, it is clear that a portion of the public understands the descriptive quality of the term "charter."

After an examination of the on-line Yellow Pages, a search submitted by defendant of "charter" on the U.S. Trademark Electronic Search System ("TESS"), and a Dun & Bradstreet report on "charter national" submitted by defendant, it is clear to this court that "charter" is a term used frequently to describe banks and other businesses. Although we do not believe that it takes no imagination to connect charter with a bank, the fact that many banks use charter coupled with the legal necessity [*10] of obtaining a charter before operating as a bank shows that it does not require much imagination to connect the two ideas. While not as generic a term as "bank", "charter", in this context, describes the fact that the bank is licensed by the government. Because the mark "imparts information directly it is descriptive." *Sands, 978 F.2d at 952*. Therefore, it is clear to this Court that the plaintiff has no reasonable likelihood of establishing that "charter" is suggestive as applied to banking services.

The decision of whether "charter" is descriptive or generic is much closer. Since "charter" is commonly used by other banks, the popular press, and statute, to denote a type of bank, it is a term which designates a kind of service. *Mil-Mar, 75 F.3d at 1157*, *Johnny Blastoff v. Los Angeles Rams Football Co., 188 F.3d 427, 438 (7th Cir. 1999)*. We believe that the term may be generic and, therefore, unprotectable. However, we will analyze this issue assuming that "charter" is descriptive.

In order to protect a descriptive mark, the plaintiff must establish that the mark has acquired a secondary meaning. *Mil-Mar, 75 F.3d at 1157*. [*11] Secondary meaning refers to the manner in which a consumer identifies a business by reference to a trademark. *Vaughan Mfg. Co. v. Brikam Int'l, Inc., 814 F.2d 346, 348 (7th Cir. 1987)*.

We must consider several factors to decide whether secondary meaning has been acquired or established: (1) the amount and manner of advertising; (2) the sales volume; (3) the length and manner of use; (4) consumer testimony; and (5) consumer surveys. *Platinum Home Mortgage Corp. v. Platinum Financial Group, Inc., 149 F.3d 722, 728 (7th Cir. 1998)*. Plaintiff has presented very little in the way of evidence in any of the five above categories.

Eugene Ognibene, the president of Charter National Bank & Trust, testified that the bank advertised in the following ways: (1) sending direct mail to customers and non-customers (it would buy advertising lists to find the non-customers); (2) print advertising in the Yellow Pages, the Daily Herald and the Northwest Suburban edition of the Chicago Tribune; (3) statement stuffers to current customers; and (4) advertisements on its webpage. All these forms of advertising referred to the plaintiff as "Charter National Bank and Trust", [*12] some referred to it as "Charter National", some referred to plaintiff simply as "Charter", and only the webpage referred to plaintiff as "cn-bank". Ognibene testified that Charter National Bank and Trust typically budgets $ 180,000 a year for advertising and typically spends the entire sum. That sum is insufficient to convince this Court that the public at large would associate the mark "charter" with plaintiff. Ognibene further testified that the bank consciously attempted to spread the budget out over the entire Chicago metropolitan area. It is this court's opinion that the use of such a relatively small sum to cover an area as large and heavily populated as Chicago is plainly insufficient to show that the recognition of the plaintiff exists above the general static accompanying a consumer's life in an active advertising market like Chicago.

The second factor we must consider is sales volume. Ognibene testified that Charter National Bank & Trust has about 15,000 customers. Over 150,000 individuals live in Hoffman Estates, Schaumburg and Hanover Park. Approximately 8 million individuals reside in the Chicago metropolitan area. Even if all of plaintiffs customers resided in Hoffman [*13] Estates, Schaumburg and Hanover Park and we were attempting to determine whether plaintiff had achieved a secondary meaning in those geographical areas, we would be hard pressed to do so based on its sales volume. Over 81% of Charter National Bank & Trust's deposit customers, by far the bulk of its business, live within four miles of one of the three branches. We cannot conclude that 15,000 customers is enough to show a secondary meaning has been established in the minds of Chicago banking consumers.

The third factor is the length and the manner of use. Sometime in 1986, the plaintiff began using a variation on the mark "charter." Plaintiff is currently on its third version of its official name using "charter." It started as "Charter Bank & Trust of Illinois" then moved to "Charter Bank & Trust, N.A." and, finally, is currently using "Charter National Bank & Trust." On advertisements, plaintiff uses "Charter National Bank & Trust", "Charter National", "Charter", and "cn-bank." The use of multiple identifying marks lessens the likelihood that members of the public have developed an identification between plaintiff and the mark "charter." Plaintiff has been using some form of the mark [*14] "charter" for almost fifteen years and we did hear testimony that bank customers commonly refer to banks using the first or first and second word of the title, but plaintiff would have to show a longer period of consistent use in advertisements and relations with the public for this factor to weigh in it's favor.

The fourth and fifth factors are consumer testimony and consumer surveys. Plaintiff has presented no consumer testimony or survey evidence. However, plaintiff has presented evidence of actual customer confusion. Since the inception of this litigation, plaintiff has instructed its employees to keep a log of instances in which it has been confused with Charter One Bank. Those logs have been filed with the court. Examples of confusion run from individuals walking in and thinking that Charter National Bank & Trust is Charter One to other banks mistaking the two institutions. Plaintiff has documented several hundred instances of what it terms "actual confusion."

Testimony, by some of the individuals responsible for compiling the logs, has shown that in virtually all instances, the consumer or other bank knew it was searching for Charter One, but mistakenly contacted Charter National [*15] Bank & Trust. 172 of those instances of confusion occurred over the phone. 130 of the instances of confusion occurred by customers actually entering one of Charter National Bank & Trust's branches. Of that 130, 123 of the walk-ins occurred at the Hanover Park Branch. Defendant has argued that the confusion is generated by the fact that we have ordered it to cover its sign across the street from that location.

This confusion is not of the kind or scope which could convince this Court that Charter National Bank &

Trust has acquired a secondary meaning. These customers are looking for Charter One, they know they are looking for Charter One, and testimony showed that several were disappointed or even angry when they realized that plaintiff was not associated with Charter One. If anything, this evidence shows that defendant has acquired a secondary meaning in the minds of consumers and when consumers think of the mark "charter", they associate it with Charter One Bank, not plaintiff. Plaintiff cannot show that it has lost a single customer because of confusion generated by the similarity of names. We have heard testimony that all of plaintiff's customers know the bank, in fact, most customers [*16] are known by name by the receptionist. Therefore, the only confusion is generated by individuals who know they are looking for Charter One and mistakenly believe that plaintiff is somehow connected to Charter One. This type of confusion cannot be used by plaintiff to show that it has acquired a secondary meaning in the mind of consumers because, by definition, this type of confusion proves that plaintiff's existence has not been noticed by the consumers who are confused.

After a careful analysis of the factors which we must consider in order to determine whether Charter National Bank & Trust can show that it has acquired a secondary meaning, we hold that it has not shown a reasonable likelihood of success on the merits. In its final filing, Charter National Bank & Trust informed the court, for the first time since the inception of this litigation, that it intended to complete a survey. Perhaps that evidence could tip the scale, but at this point, based on the evidence before the court, plaintiff cannot show that "charter" has achieved a secondary meaning in the minds of consumers which identifies with its products and services. Therefore, even if "charter" is a descriptive and not [*17] generic mark, plaintiff does not have a reasonable likelihood of success on the merits because it cannot show that it has acquired a secondary meaning.

A final issue that arose as part of the preliminary injunction hearing is whether Douglas Lichtman is qualified to testify as an expert under the standards established by *Daubert* and its progeny under *Federal Rule of Evidence 702*. *Daubert v. Merrell Dow Pharm., Inc., 509 U.S. 579, 125 L. Ed. 2d 469, 113 S. Ct. 2786 (1993)*; *Kumho Tire Co. v. Carmichael, 526 U.S. 137, 143 L. Ed. 2d 238, 119 S. Ct. 1167 (1999)*; *General Electric Co., v. Joiner, 522 U.S. 136, 139 L. Ed. 2d 508, 118 S. Ct. 512 (1997)*. As a trial court, we must function as a "gatekeeper" with respect to the screening of expert testimony in order to assure the reliability and relevancy of expert testimony. *Kumho, 526 U.S. at 147*. In the instant case, defendant has challenged Professor Lichtman's credentials to testify about trademark law.

Since June of 1998, Professor Lichtman has been employed as an assistant professor of law at the University of Chicago. From June of 1997 through May of 1998, he was [*18] employed as a Fellow at Yale Law School. His academic credentials are impressive. He was graduated from Yale Law School in 1997 as an Olin Fellow in Law, Economics and Public Policy and as a Coker Teaching Fellow in Constitutional Law. He attended Duke University and was graduated first in his class with a B.S.E. in Electrical Engineering and Computer Science. He has published seven works, on subjects including telecommunications law, patents and jury reform. None of the works that Professor Lichtman has published focuses on trademark law, but he is currently researching a project that has a focus in trademark law. Furthermore, the classes that he has taught while an assistant professor at the University of Chicago contain a trademark component. During the preliminary injunction hearing, Professor Lichtman testified that he considers himself an expert able to testify about trademark law, patent law, and law involving emerging technology. Professor Lichtman has never done any practical work on a trademark. He has never drafted a trademark application, defended a trademark or prosecuted a trademark.

Professor Lichtman is not currently qualified to testify as an expert on trademark law. [*19] Courts have recognized that expertise may be acquired through practical experience, academic experience or simply through observing the work of others. *DePaepe v. General Motors Corp., 141 F.3d 715, 719 (7th Cir. 1998)*; *Wetherill v. University of Chicago, 565 F. Supp. 1553, 1563-64 (N.D. Ill. 1983)*(Shadur, J.). However, Professor Lichtman has no special qualification over the average lawyer in the field of trademark. He testified that he is qualified as an expert because "I am incredibly well read in the area, read all relevant law, read a lot of the relevant cases, read a lot of the commentary, try to understand what the next issues will look like, try to understand the policies that caused us to design the law the way we did, their strengths and weaknesses. The details of practicing trademark law, that is not what I do." Essentially, Professor Lichtman is asking this Court to certify him as an expert because he has done what any motivated lawyer could do, namely, study precedent. There is no special or unique perspective, other than his intelligence, which Professor Lichtman can bring to the court. It is difficult to reconcile Professor Lichtman's [*20] lack of overall experience with his claim to be an expert in so many wideranging areas of the law. Given that none of his published work involves trademark law and that trademark law only comprises a small subset of larger topics which he teaches, we cannot find Professor Lichtman qualified as an expert.

However, we have considered his legal arguments. In our opinion, he advanced no arguments that could not have been presented to this court as legal argument in a brief or memorandum. As our opinion makes clear above, we rejected Professor Lichtman's analysis that, using the imagination test, "charter" is a suggestive mark.

CONCLUSION

The Motion for a Preliminary Injunction brought by Charter National Bank & Trust is denied because plaintiff cannot show a reasonable likelihood of success on the merits. Defendant's motion to disqualify the testimony of Professor Douglas Lichtman is granted.

It is so ordered.

Wayne R. Andersen

United States District Judge

Dated: August 31, 2001

[Other docket entry] **Enter MEMORANDUM, OPINION AND ORDER: The motion for a preliminary injunction brought by Charter National Bank & Trust is denied because plaintiff cannot show a reasonable** [*21] **likelihood of success on the merits. Defendant's motion to disqualify the testimony of Professor Douglas Lichtman is granted. It is so ordered.**

[For further detail see order attached to the original minute order.]

EXHIBIT 3

LEXSEE 2009 U.S. DIST. LEXIS 5981

F.B.T. Productions, LLC, et al. v. Aftermath Records, et al.

Case No. CV 07-3314 PSG (MANx)

UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA

2009 U.S. Dist. LEXIS 5981

January 20, 2009, Decided
January 20, 2009, Filed

COUNSEL: [*1] Attorneys Present for Plaintiff(s): Not Present.

Attorneys Present for Defendant(s): Not Present.

JUDGES: The Honorable Philip S. Gutierrez, United States District Judge.

OPINION BY: Philip S. Gutierrez

OPINION

CIVIL MINUTES - GENERAL

Proceedings: (In Chambers) Order Denying Plaintiffs' Motion for Summary Judgment and Defendants' Motion for Partial Summary Judgment

Before the Court are Plaintiffs' Motion for Summary Judgment and Defendants' Motion for Partial Summary Judgment. The Court finds the matters appropriate for decision without oral argument. *Fed. R. Civ. P. 78*; *Local R. 7-15*. After considering the moving and opposing papers, the Court hereby DENIES the motions.

I. Background

Plaintiffs F.B.T. Productions, LLC ("FBT") and Em2M, LLC ("Em2M") are entities that receive royalties payable for the use and exploitation of master recordings by Marshall B. Mathers III, better known as the rapper Eminem. Defendants are Aftermath Records ("Aftermath"), a joint venture, and its owners, Interscope Records ("Interscope"), UMG Recordings, Inc. ("UMG"), and Ary, Inc. ("Ary"). The primary question presented by this case is what royalty is due Plaintiffs when a consumer downloads an Eminem song to her computer or purchases an [*2] Eminem ringtone for her mobile phone.

A. The Eminem Agreements

In approximately 1995, Jeff and Mark Bass signed Eminem to an exclusive record deal with FBT, their production company. On March 9, 1998, FBT entered into an agreement ("the 1998 Agreement") to furnish Eminem's recordings to Aftermath. The 1998 Recording Agreement contains two royalty provisions. First, paragraph 4(a) sets a royalty for "full-price records sold in the United States" that varies between 12 and 20% (the "Records Sold" provision). [1] *Hoffman Decl.* Ex. A P 4(a)(i). "Records" are defined as "all forms of reproductions, whether embodying sound alone or sound together with visual images, manufactured or distributed primarily for home use." *Id.* at P 16(e).

1 According to Defendants, the artist's basic royalty rate varies with the artist's popularity. *Hoffman Decl.* P 4. The 1998 Agreement provides for "escalations," meaning that the royalty rate

increases as certain sales targets are met. *Id.; see also Hoffman Decl.* Ex. A 4(a)(i).

Second, paragraph 4(c)(v) of the 1998 Agreement states that "[o]n masters licensed by us . . . to others for their manufacture and sale of records or for any other uses, your royalty shall be [*3] an amount equal to fifty percent (50%) of our net receipts from the sale of those records or from other uses of the masters" ("the Masters Licensed" provision). *Id.* at P 4(c)(v). A "master" is defined as "a recording of a sound, without or with visual images, which is used or useful in the recording, production or manufacture of records." *Id.* at P 16(d).

In 2000, the parties to the 1998 Agreement entered into a novation that established a direct contractual relationship between Eminem and Aftermath ("the 2000 Novation"). *Plfs' UF* P 28. The 2000 Novation transferred the obligation to provide Aftermath with Eminem's recording services from FBT directly to Eminem. FBT became a "passive income participant," retaining a right to royalty income from Eminem's recordings. *Plfs' UF* P 29; *Dfts' UF* P 2. Aftermath agreed to render separate accountings to FBT and Eminem, and the 2000 Novation specified the royalty share of each. *Plfs' UF* P 30.

In 2003, Aftermath and Eminem entered into a new recording contract, which terminated the 1998 Agreement ("the 2003 Agreement"). *Plfs' UF* P 37. Plaintiffs retained the right to royalties from Eminem's recordings under the 2003 Agreement. *Plfs' UF* P 41. The [*4] structure of the 2003 Agreement was similar to the 1998 Agreement, but included an increased advance and higher royalties reflecting Eminem's rise to stardom. *Plfs' UF* PP 38-39. Like the 1998 Agreement, the 2003 Agreement set forth two royalty rates, one for "records sold," *Hoffman Decl.* Ex. D P 5(a)(i), and one for "masters licensed . . . to others for their manufacture and sale of records or for any other uses," *Id.* at P 5(c)(v).

In November 2004, the parties entered into the "2004 Amendment," which altered the 2003 Agreement to increase the advance for an upcoming LP, the fraction of FBT's passive income participation, and certain royalty rates. *Plfs' UF* PP 56, 58.

B. UMG's Agreements with Third Party Digital Media Providers

Since approximately 2001, UMG has entered into agreements with various third parties granting those entities rights to distribute music to consumers over the internet in various forms, including permanent downloads. *Plfs' UF* P 86. Permanent downloads are digital copies of recordings that, once downloaded, remain permanently on an end-user's computer, iPod, or other hardware device. *Plfs' UF* P 73. [2] Apple's iTunes music store, which launched in 2003, quickly became [*5] the largest source of legal permanent downloads. *Plfs' UF* PP 69-70.

2 In contrast, the "streaming" of music allows a user to listen to a song online, but no copy is created on her local machine. *Plfs' UF* PP 76, 78. A consumer can only listen to a streamed song contemporaneously with its transmission; it is not possible to listen to the song again without reconnecting to the provider. *Plfs' UF* P 79. "Conditional downloads" are a form of download restricted such that a user must maintain a subscription to a given service in order to continue to listen to the downloaded songs. *Plfs' UF* P 80.

In approximately 2003, UMG began entering into contracts with major cellular telephone network carriers, including Sprint, Nextel, Cingular, and T-Mobile, to provide UMG recordings for use on mobile phones as mastertones. *Plfs' UF* PP 120-21. "Mastertones" is a term that refers to more than one type of digital media; most commonly, mastertones are short clips of a song that play on a cellular phone to signal an incoming call. *Plfs' UF* P 82. Typically, the user permanently downloads the mastertone onto her mobile device. *Plfs' UF* P 83. Another form of mastertones play for a third party who calls the purchaser; [*6] they are stored on a central server and "streamed" to the caller. *Plfs' UF* P 84.

In 2005, FBT and Eminem hired an accounting firm to audit Defendants' accounting records for the period beginning January 1, 2002 and ending June 30, 2005. *Plfs' UF* P 191. The audit revealed that UMG was paying Plaintiffs royalties for permanent downloads and mastertones based on the rate set forth in the "Records Sold" provision of the Eminem Agreements. *Plfs' UF* P 192. Based on Plaintiffs' belief that royalties on permanent downloads and mastertones should be paid at the higher rate set forth in the "Masters Licensed" provision, the auditor calculated that Defendants had underpaid Plaintiffs by at least $ 650,000. *Plfs' UF* P

192-93. Defendants responded to the audit report in a letter dated May 8, 2007, contesting the determination that certain royalties had been underpaid. *Plfs' UF* P 196; *Dfts' SGI* P 196.

On May 21, 2007, Plaintiffs filed a complaint for breach of contract and declaratory judgment based on Defendants' alleged underpayment of royalties for digital uses of Eminem's recordings. On March 6, 2008, Plaintiffs filed a second lawsuit for breach of contract and declaratory judgment, also claiming [*7] that Defendants had failed to properly account and pay royalties due to Plaintiffs. *See F.B.T. Productions, LLC, et al. v. Aftermath Records, et al., No. CV 08-1563 PSG (CWx)* (Docket No. 1). The Court consolidated the two actions on May 19, 2008 and ordered Plaintiffs to file an amended complaint. Plaintiffs did so and later filed a second amended complaint ("SAC"), which asserted two counts for breach of contract and a third count for declaratory relief.

Plaintiffs now move for summary judgment on all claims. Defendants move for partial summary judgment on the first and third causes of action.

II. Legal Standard

Federal Rule of Civil Procedure 56(c) establishes that summary judgment is proper only when "the pleadings, the discovery and disclosure materials on file, and any affidavits show that there is no genuine issue as to any material fact and that the movant is entitled to judgment as a matter of law." *Fed. R. Civ. P. 56(c)*. The moving party has the burden of demonstrating the absence of a genuine issue of fact for trial. *See Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 256, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986)*. If the moving party satisfies the burden, the party opposing the [*8] motion must set forth specific facts showing that there remains a genuine issue for trial. *See id. at 257*.

A non-moving party who bears the burden of proving at trial an element essential to its case must sufficiently establish a genuine dispute of fact with respect to that element or face summary judgment. *See Celotex Corp. v. Catrett, 477 U.S. 317, 322-23, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986)*. Such an issue of fact is a genuine issue if it reasonably can be resolved in favor of either party. *See Anderson, 477 U.S. at 250-51*. If the moving party seeks summary judgment on a claim or defense for which it bears the burden of proof at trial, the moving party must use affirmative, admissible evidence. Admissible declarations or affidavits must be based on personal knowledge, must set forth facts that would be admissible evidence at trial, and must show that the declarant or affiant is competent to testify as to the facts at issue. *See Fed. R. Civ. P. 56(e)*.

III. Discussion

A. Royalties Due on Permanent Downloads and Mastertones (Counts 1 and 3)

Plaintiffs' first cause of action seeks damages resulting from Defendants' alleged breach of contract with respect to the payment of royalties [*9] due on permanent downloads and mastertones of Eminem's recordings. *SAC* P 38. Plaintiffs' third cause of action seeks a declaration that Defendants are obligated to pay royalties equal to fifty percent (50%) of Defendants' net receipts "from the licensing by Defendants or Defendants' Licensees of the Eminem Masters to Music Download Providers and Mastertone Providers." *SAC* PP 54-56. Because both counts necessitate a determination of the royalty due on these digital uses, the Court will treat the first and third causes of action together for the purpose of summary judgment.

Two provisions in the Eminem Agreements are central to the instant dispute. First, the "Records Sold" provision in the 1998 and 2003 Agreements sets a royalty for "full-price records sold in the United States" that varies between 12 and 20%. *Hoffman Decl.* Exs. A P 4(a) and D P 5(a). Second, the "Masters Licensed" provision provides that "[o]n masters licensed by us . . . to others for their manufacture and sale of records or for any other uses, your royalty shall be an amount equal to fifty percent (50%) of our net receipts from the sale of those records or from other uses of the masters." *Hoffman Decl.* Exs. A P 4(a)(v) [*10] and D P 5(c)(v). To date, Aftermath has paid Plaintiffs royalties for permanent downloads and mastertones of Eminem recordings under the Records Sold provision. Plaintiffs contend that they are entitled to summary judgment because the Eminem Agreements unambiguously require Defendants to account for royalties on permanent downloads and mastertones under the "Masters Licensed" provision. Defendants argue that Plaintiffs' proffered construction is not a reasonable reading of the contract language and that summary judgment should be granted for Defendants on this basis.

Under California law, when the meaning of the words in a contract is disputed, the Court must provisionally consider all extrinsic evidence that is relevant to show whether the contractual language is reasonably susceptible to either of the competing interpretations advanced by the parties. *Pac. Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co., 69 Cal. 2d 33, 39, 69 Cal Rptr. 561, 442 P.2d 641 (1968)*; *Wolf v. Sup. Ct., 114 Cal. App. 4th 1343, 1351, 8 Cal. Rptr. 3d 649 (2004)*. This is the case even if the contract appears unambiguous on its face, because "the fact that the terms of an instrument appear clear to a judge does not preclude [*11] the possibility that the parties chose the language of the instrument to express different terms." *Pac. Gas, 69 Cal. 2d at 39*. "Extrinsic evidence can include the surrounding circumstances under which the parties negotiated or entered into the contract; the object, nature and subject matter of the contract; and the subsequent conduct of the parties." *Cedars-Sinai Med. Ctr. v. Shewry, 137 Cal. App. 4th 964, 980-81, 41 Cal. Rptr. 3d 48 (2006)*. Whether a contract is ambiguous is a matter of law. *Maffei v. Northern Ins. Co., 12 F.3d 892, 898 (9th Cir. 1993)*. If the Court determines that the contractual provision in question is ambiguous, summary judgment is inappropriate because the differing views of the parties' intent will raise genuine issues of material fact. *Id.* Summary judgment is appropriate only if the contract is unambiguous. *Nat'l Union Fire Ins. Co. v. Argonaut Ins. Co., 701 F.2d 95, 97 (9th Cir. 1983)*.

The Eminem Agreements do not expressly state whether royalties on permanent downloads and mastertones are to be calculated under the Records Sold provision or the Masters Licensed Provision. Furthermore, neither Plaintiffs nor Defendants have submitted evidence of the negotiating parties' discussions, [*12] drafts, or other contemporaneous expressions of intent as to how permanent downloads and mastertones were to be treated under the Agreements. [3] Accordingly, the Court must look to the nature of the contract and the surrounding circumstances to interpret the contractual language. *Wolf, 114 Cal. App. 4th at 1357*; *Gen. Motors Corp. v. Sup Ct., 12 Cal. App. 4th 435, 442, 15 Cal. Rptr. 2d 622 (1993)*.

3 Plaintiffs and Defendants have submitted deposition testimony of various individuals who offer their understanding of which provision of the Eminem Agreements applies to permanent downloads and mastertones. However, the parties have not shown that (1) each of those individuals was involved in negotiating or drafting the Agreements and (2) that the individual's understanding was expressed during negotiations. Indeed, it is undisputed that the parties did not discuss the treatment of digital uses during the negotiation of the 2003 Agreement. *Plfs' UF* P 50. The parties' undisclosed intent or understanding is irrelevant to contract interpretation. *Cedars-Sinai, 137 Cal. App. 4th at 980* (citation omitted).

Plaintiffs argue that the plain language of the Masters Licensed provision, which states: "[o]n [*13] masters licensed by us . . . to others for their manufacture and sale of records or for any other uses, your royalty shall be an amount equal to fifty percent (50%) of our net receipts from the sale of those records or from other uses of the masters," applies to *all* "licenses" of Eminem recordings to third parties. Plaintiffs maintain that the relationship between UMG and third-party permanent download and mastertone providers are "licenses" within the legal meaning of that term. Therefore, according to Plaintiffs, the Eminem contracts entitle them to a 50% royalty on these digital uses.

Plaintiffs have submitted evidence which would support a finding that at least some of the agreements between Defendants and third-party permanent download providers are licenses. "The distributor of a copyrighted product's intent to regain possession is strong evidence that the produce was licensed, not sold, to the recipient." *UMG Recordings, Inc. v. Augusto, 558 F. Supp. 2d 1055, 1060 (C.D. Cal. 2008)*. For example, Plaintiffs have submitted an agreement between UMG and Apple Computer, Inc. *Busch Decl.* Ex. 20. The agreement indicates that UMG may withdraw any of its sound recordings from the iTunes [*14] online music store, *id.* at P 1(b), which is indicative of a license, not a sale. The iTunes agreement provides recurring benefits for UMG, the copyright holder, which also suggests that the agreement constitutes a license. *See id. at 1061* ("Generally, licenses provide recurring benefits for the copyright owner."). For each song or album sold, Apple agrees to pay a certain amount to UMG. *Busch Decl.* Ex. 20 P 2(a). Thus, under the 2002 iTunes agreement, Apple appears to lack many of the critical rights of ownership, such as the right to perpetual possession and freedom from obligations to UMG. This suggests that the agreement was a license. *See UMG Recordings, 558 F. Supp. 2d at 1062*.

Plaintiffs state that Defendants have produced approximately 80 such agreements, which are "similar in terms of the rights granted to the third parties and their general structure." *Plfs' Opp.* 8:25-26. Defendants contest this assertion, however, arguing that they have produced over 500 third-party agreements that vary and cannot be generalized as to their grant of rights. *Dfts' SGI* PP 86-87. [4] Therefore, the Court cannot conclude that all of the permanent download agreements are licenses.

> 4 Plaintiffs also [*15] argue that by 2003, UMG had entered into agreements with Apple and other digital providers, so it knew that the Masters Licensed provision would apply to permanent downloads. However, Defendants correctly point out that there is no evidence that the negotiators of the Eminem contracts had read or were aware of the relevant third party digital provider contracts.

Furthermore, Defendants dispute that the parties intended the term "license" in the Eminem Agreements to have a copyright law definition. Under California law, "[t]he words of a contract are to be understood in their ordinary and popular sense, rather than according to their strict legal meaning; unless used by the parties in a technical sense, or unless a special meaning is given to them by the usage, in which case the latter must be followed." *Cal. Civ. Code § 1644*. According to Defendants, the parties intended for the Masters Licensed provision to apply only to "ancillary uses" of the master recordings. Defendants define "ancillary uses" as transactions ancillary to the record company's main business of selling records, such as licensing an Eminem song for use in a movie or for inclusion in a compilation album. *Dfts' Opp.* [*16] 4:10-15. However, there is no limiting provision in the Masters Licensed Provision or elsewhere in the Eminem Agreements that indicates that the Masters Licensed provision only applies to "ancillary" uses or income. Defendants point to a sentence in the 2000 Novation which states:

> [I]t is agreed that the foregoing fractions of the applicable royalty rate shall also be applied to any advances or fees payable to Artist in connection with any ancillary uses of each master recording recorded by Artist pursuant to the Agreement after the Delivery of LP 2 and prior to the Delivery of LP 7 . . . .

Hoffman Decl. Ex. C P 7(e). Based on the record before it, it is not clear to the Court that this sentence is modifying, limiting, or referring to the Masters Licensed Provision. Defendants insist that the reference to royalties on "ancillary uses" must refer to the Masters Licensed provision; however, this reference is not clear from the plain language of the contract, and Defendants have not convinced the Court that this section of the Novation must refer to the Masters Licensed Provision.

Next, both parties argue that industry custom supports their interpretation of the Eminem Agreements. Plaintiffs [*17] assert that the "purpose" of a "masters licensed" provision is "to provide for a higher royalty rate when the record company licences the master recordings to third parties because in such situations the record company does not incur the expensive incremental cost associated with manufacturing, packaging and distributing the physical records associated with a release by a third party." *Plfs' UF* P 23. Plaintiffs also maintain that this type of language in a recording contract usually serves as a "catch all" provision intended to apply to all licensed uses of the master recordings not specifically provided for in the contract. *Plfs' UF* P 24. Defendants fervently dispute this assertion, contending that provisions such as the Masters Licensed section typically apply only to compilation records and incorporation into movies, TV shows, and commercials. *Dfts' SGI* PP 23-24. The Court finds that neither party has conclusively established that "custom and practice" mandates a particular interpretation of the Masters Licensed provision. Instead, the parties' conflicting evidence creates a triable issue of fact. [5]

> 5 The Court notes that much of Plaintiffs' expert testimony appears to be inadmissible, [*18] as it sets forth an opinion on the proper interpretation of the Eminem Agreements. *See generally Menell Decl.* An expert may testify to industry custom and usage with respect to particular contract terms, but may not offer an opinion on the ultimate contract interpretation issue. *Morrow v. Los Angeles Unified Sch. Dist., 149 Cal. App. 4th 1424, 1444-45, 57 Cal. Rptr. 3d 885 (2007).*

Defendants also contend that Plaintiffs' proffered understanding of the Eminem Agreements ignores a key provision of the 2004 Amendment. This provision states: "Sales of Albums by way of permanent download shall be treated as USNRC Net Sales for the purpose of escalations, provided that the sales price concerned falls within a top line sales price category applicable to such method of sale." *Hoffman Decl.* Ex. E. P 2(a). Plaintiffs argue that the 2004 Amendment's treatment of downloads is only relevant for the purpose of calculating units toward escalation targets. However, Defendants point out that referring to downloads as "sales of albums" would be nonsensical if, as Plaintiffs contend, downloads are never "sold" but merely licensed. Plaintiffs' response is that the Masters Licensed provision explicitly [*19] references "the manufacture and sale of records" by third parties. Therefore, the 2004 Amendment's provision does not conclusively resolve the ambiguity. [6]

6 Additionally, the Court notes that this provision does not address mastertones.

Defendants maintain that the "Records Sold" provision unambiguously applies to permanent downloads and mastertones because these are forms of "records." It is undisputed that the 1998 and 2003 Agreements define a "record" as "all forms of reproductions, whether embodying sound alone or sound together with visual images, manufactured and distributed primarily for home use." *Dfts' UF* P 4. Furthermore, the Agreements give Aftermath the right to sell "records" "in any [or] all forms of media now known and hereinafter developed." *Hoffman Decl.* Ex. A 8 at P 40. Thus, Defendants maintain that their interpretation is more consistent with the contracts' expansive grant of rights to Defendants to distribute "records" embodying the Eminem master recordings.

Finally, Defendants also point to the fact that Plaintiffs never objected to Defendants' payment of royalties under the Records Sold provision until the auditor raised the issue in 2006. Construction given to [*20] a contract by acts and conduct of parties with knowledge of the contract terms and before a controversy arises is relevant to contract interpretation. *S. Pac. Trans. Co. v. Sante Fe Pac. Pipelines, Inc., 74 Cal. App. 4th 1232, 1242, 88 Cal. Rptr. 2d 777 (1999)*. Therefore, this evidence of Plaintiffs' conduct is also relevant to show their intent.

"The purpose of the law of contracts is to protect the reasonable expectations of the parties." *ASP Props. Group v. Fard, Inc., 133 Cal. App. 4th 1257, 1268, 35 Cal. Rptr. 3d 343 (2005)* (citation omitted). Here, there is no direct evidence of objective manifestations of the parties' intent at the time the Eminem Agreements were negotiated, and the Agreements do not explicitly indicate under which royalty provision permanent downloads and mastertones are to be treated. Indeed, it is undisputed that parties did *not* discuss the treatment of downloads and mastertones while negotiating the most recent version of the contract. *Plfs' UF* P 50. Based on the conflicting extrinsic evidence before the Court, the contracts are reasonably susceptible to more than one interpretation. Therefore, Plaintiffs' and Defendants' reasonable expectations regarding [*21] royalties due on permanent downloads and mastertones when they entered into the Eminem Agreements remain triable issues of material fact. *See Wolf, 114 Cal. App. 4th at 1359-60*. Accordingly, the motions for summary judgment must be DENIED.

B. Underpayment due to Misallocation of Costs (Count 2)

Plaintiffs' remaining cause of action alleges that Defendants have underpaid royalties due Plaintiffs in the amount of $ 159,332. *SAC* PP 45-47. Plaintiffs claim that they are entitled to summary judgment on this claim because Defendants admitted this underpayment in writing on May 8, 2007. *SAC* P 47.

Defendants correctly point out that Plaintiffs have not fully explained the basis for this claim. Plaintiffs' Statement of Uncontroverted Facts in support of their motion for summary judgment claims that in a letter dated May 8, 2007, Defendants "admitted an underpayment to F.B.T. of $ 159,332 stemming from incorrect allocation of costs as between Eminem and Plaintiffs." *Plfs' UF* PP 196, 2. However, in that letter, Defendants disputed the auditor's determination that Defendants had misallocated producer royalties, expressly maintaining that no adjustment was necessary under this provision of the Eminem [*22] Agreements. *Dfts' SGI* P 2; *See Busch Decl.* Ex. 33 P 16. According to Defendants, the $ 159,332 figure represents an "interim net figure calculated as part of Aftermath's audit response, which netted Plaintiffs' claim against some, but not all, of Defendants' counterclaims seeking recovery of certain overpayments." *Dfts' SGI* P 2; *see also Busch Decl.* Ex. 33, p.5-6.; Ex. 41 (Hu Dep.) 29:16-30:20.

Furthermore, as Defendants correctly argue, it is unclear whether $ 159,332 is the entirety of Plaintiffs' second cause of action. The SAC introduces the second claim for breach of contract with the statement, "*For* *example and without limitation*, Defendants have violated the terms of the Agreements as set forth in the following paragraphs." *SAC* P 45 (emphasis added). The following paragraphs describe Defendants' alleged misallocation of producer royalties as between Plaintiffs and Eminem. *Id.* PP 46-49. However, because Plaintiffs did not limit their second cause of action to this specific breach, Plaintiffs may be improperly moving for summary judgment as to part of a claim without notice to Defendants.

In summary, Plaintiffs have failed to show that there is no genuine issue of material fact [*23] for trial on their second cause of action. Therefore, the motion for summary judgment as to the second claim is DENIED.

IV. Conclusion

For the foregoing reasons, Plaintiffs' motion for summary judgment and Defendants' motion for partial summary judgment are DENIED.

IT IS SO ORDERED.

EXHIBIT 4

LEXSEE 2010 U.S. DIST. LEXIS 77772

MARK GABLE a/k/a MARK PIZZUTI, Plaintiff, v. NATIONAL BROADCASTING COMPANY ("NBC"), a California corporation, GREGORY THOMAS GARCIA, an individual, 20th CENTURY FOX FILM CORPORATION, a corporation, 20th CENTURY FOX HOME ENTERTAINMENT AND DOES 1 through 10, inclusive, Defendants.

CV 08-4013 SVW (FFMx)

UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA

2010 U.S. Dist. LEXIS 77772

February 22, 2010, Decided
February 22, 2010, Filed

COUNSEL: [*1] For Mark Gable, an individual, Plaintiff: Christopher T Aumais, LEAD ATTORNEY, Girardi and Keese, Los Angeles, CA; Natasha L Hill, Steven T Lowe, LEAD ATTORNEYS, Lowe Law, Los Angeles, CA; Thomas V Girardi, LEAD ATTORNEY, Girardi and Keese LLP, Los Angeles, CA.

For National Broadcasting Company ("NBC"), a California corporation, Gregory Thomas Garcia, an individual, 20th Century Fox Film Corporation, a corporation, 20th Century Fox Home Entertainment, Defendants: Eric J German, Robert H Rotstein, LEAD ATTORNEYS, Mitchell Silberberg and Knupp LLP, Los Angeles, CA; Jill Pavian Rubin, LEAD ATTORNEY, Mitchell Silberberg and Knupp, Los Angeles, CA.

JUDGES: STEPHEN V. WILSON, UNITED STATES DISTRICT JUDGE.

OPINION BY: STEPHEN V. WILSON

OPINION

ORDER GRANTING DEFENDANTS' MOTIONS FOR SUMMARY JUDGMENT [21] [43] [JS-6]

I. INTRODUCTION

Defendants NBC Universal, Inc., Gregory Garcia, Twentieth Century Fox Film Corporation, and Twentieth Century Fox Home Entertainment LLC (collectively "Defendants") move for summary judgment against Plaintiff Mark Gable ("Gable" or "Plaintiff"). Plaintiff claims that the television show My Name is Earl ("Earl") was copied from Plaintiff's screenplay Karma! Defendants argue that Plaintiff cannot [*2] show that Defendants had access to Plaintiff's screenplay or that the two works are substantially similar; thus, summary judgment should be granted.

For the following reasons, the Court GRANTS Defendants' Motions for Summary Judgment.

II. FACTS

A. Background

In late 1994, Plaintiff Gable wrote Karma!, a dramatic screenplay about a dirty cop's journey toward redemption. (Plaintiff's Statement of Genuine Issues ["PSGI"] 3-5 [Docket No. 54].) Gable registered the screenplay with the Writer's Guild of America on March

10, 1995. (Id. 6.) On September 20, 2004, he registered Karma! with the United States Copyright Office. (Id. 7.)

In April 1995, Gable, with the help of his girlfriend Cindy Cramer, sent Karma! to four talent/literary agents and two friends working in the entertainment industry. (Id. 13-15.) Relevant to the current matter, Plaintiff sent the script to David Gersh, a talent agent at The Gersh Agency ("TGA"). (Id. 14.) Gersh had not solicited the script and claims to have never heard of it. (Defendants' Statement of Uncontroverted Facts ["DSUF"] 2, 5 [Docket No. 22].) Plaintiff did not receive a response from TGA. (PSGI 25.) Plaintiff has produced no documentary evidence supporting [*3] his claim that he sent Karma! to TGA.

In 1995, TGA consisted of approximately 20 to 25 agents. (PSGI 32.) One of the agents at TGA during this period was Ken Neisser. (Id.) Neisser, a literary agent, represented Defendant Gregory Garcia, the subsequent creator of Earl. (Garcia Decl. 6.) Neisser represented Garcia from 1993 until mid-2000, when Garcia left TGA for another agency. (Garcia Decl. 7.)

In the spring of 2000, Garcia left TGA and obtained representation from Creative Artists Agency ("CAA"). (Id.) Garcia maintains that he conceived of the idea for Earl three years later, in the summer of 2003. (Id. 10.) Garcia stated that by the late summer/early fall of 2003, he had drafted portions of the pilot episode for Earl and began pitching the concept to various persons working in the television industry. (Id. 16.) In the fall of 2004, representatives from NBC Universal ("NBCU") expressed interest in Earl, and told Garcia that if he could find an actor to play the title character, "NBC would greenlight the project." (Id. 17.) After a lengthy casting process, the actor Jason Lee agreed to play Earl in the spring of 2005. (Id. 17.) The pilot for Earl first aired on September 20, 2005. [*4] (Id. 3.) The show is currently in its fourth season. (Id.)

In or about September 2005, Plaintiff watched Earl on NBC. Plaintiff contends that he was immediately struck by the similarities between Karma! and Earl. After viewing several episodes, Plaintiff formed the belief that the creator of Earl had infringed upon Plaintiff's copyrighted screenplay, Karma!.

B. Overview of Karma!

Karma! depicts the journey of Frankie Augustus, a dirty cop, who through the help of a guardian angel called "Angel Man," creates good karma for himself and his unborn son by making amends for bad acts in his past. Frankie is a sarcastic forty-year-old Italian American with no moral compass. The opening scenes of Karma! depict Frankie taking bribes from a drug dealer, his subsequent arrest, prison time, and release.

After his release, Frankie is in dire straights. Behind on his rent, he attempts to steal money from a blind street performer, and eventually picks the pocket of a man on the subway. Disgruntled with the small amount of money in the stolen wallet, Frankie thumbs through the wallet to find a picture of an angel. Frankie stares at it, and states:

> A picture of an angel, well that's appropriate. Anyone [*5] with a buck and some chump change, better have an angel to pray too [sic], huh? . . . Yea! Well Mr. Guardian angel where are you now?! I stole your buddies [sic] wallet right under his nose and you're nowhere to be found. Shit! I'm hip to your shit!! . . . You ever hear of angel dust? That's what's you're gonna be. Actually I wouldn't mind a hit of that right now. A little numbness would do me some good.

(Decl. of Jill Rubin, Exh. D., pg. 82-83 [Karma! screenplay].) As Frankie speaks, he attempts to light the picture on fire, but it will not ignite. Instead, Frankie looks at the picture and sees the angel shaking his finger at Frankie. Frankie responds by throwing the picture into the wind. The wind carries the picture away over the river, but then carries it back and drops it on Frankie's shoulder. An angel then appears before Frankie.

The script refers to the angel as "Angel Man" and describes him as follows: "[The angel] look's [sic] like a young man about 27 years old. With opalescent skin, and white hair, resembling an albino, and a slender physique, clothed in blue gun metal. There's a solid gold sword hanging from his waist." (Id. at 83.) Angel Man warns Frankie that he has "fallen [*6] off the path like a stray dog" and asks Frankie to meet him in front of Frankie's mother's grave at twelve midnight the next night. (Id.)

The next night, Frankie goes to his mother's grave. It is pouring down rain, and the cemetery is empty. When Angel Man appears, he closes his eyes and makes a prayer with his hands, which instantly stops the rain. Angel Man also brings dying flowers back to life with the wave of his hand. Then, Angel Man tells Frankie that he has come to help Frankie save the soul of his unborn son. Frankie, being single, thinks Angel Man has the wrong person. However, Angel Man tells Frankie that Frankie had sex with a girl named Betty Alonzo who is now pregnant with his child. Angel Man then warns Frankie:

> Your sons soul [sic] is at stake here! Your sons soul [sic] is coming into this world with your karma along with his Mothers [sic]. And I don't think I have to tell you . . . Your karmas [sic] not gonna be up for any awards this year!

(Id. at 89.) Angel Man then "creates a cloud of mist." (Id.) "A picture forms within the cloud revealing Frankies [sic] unborn son at the age of ten years old. It's obviously Frankies son [sic] he looks just like Frankie. Seemingly [*7] destined to follow Frankies [sic] footsteps his son is brandishing a stolen 38 odd special in front of his friends." (Id.)

Frankie asks what he can do to save his son's soul. Angel Man responds with three instructions: (1) "make amends with the people you've really hurt in the past," (2) "get your life together, stop stealing, stop taking drugs, and get a straight job as soon as possible," and (3) "in the very near future you're going to come into some wealth, use it wisely." (Id. at 91.)

After his meeting with Angel Man, Frankie begins to follow Angel Man's instructions. Frankie refuses to take drugs, calls a friend and admits stealing money from her, and then visits an ex-girlfriend to confess that he had an affair with her sister while they were dating. Frankie then goes to Times Square where he sees a man drop his wallet. Frankie picks up the wallet, and instead of stealing it, he gives the wallet back to the man. The man then introduces himself to Frankie, and offers him a job as a bartender.

Frankie then purchases a lottery ticket and a scratcher from a liquor store. [1] Frankie wins three hundred dollars from the scratcher. Frankie flashes back to Angel Man telling him to use it [*8] wisely. Accordingly, Frankie buys teenagers some candy that they were about to steal, and revisits the blind street performer, this time putting money into his tin instead of taking it out.

> 1 The lottery ticket is of the kind where the customer picks numbers, and then the winning numbers are called later that night. The scratcher is a ticket where the customer takes a coin and scratches off a covering to reveal whether money is won.

As the screenplay continues, Frankie again runs into the blind street performer, but this time the street performer has been shot. After Frankie assists the blind man, the blind man turns into Angel Man. Angel Man assures Frankie that he is on the right path, and tells Frankie that "God believes he can resurrect all of his sons who have fallen." Angel Man tells Frankie that wealth will still follow.

In another scene, it appears that Angel Man is watching Frankie's progress. Frankie is walking down a deserted alley at night and hears a cat's meow coming from a row of trash cans. Frankie searches through the cans and finds an abandoned kitten. He rescues the kitten and takes it home to his friend, Tori Ann. Angel Man watches the entire scene, smiling.

Throughout [*9] this period, Frankie is staying with Toni Ann, a drug-using struggling model. Tori Ann is 13-years younger than Frankie and becomes his love interest. Tori Ann observes the changes that Frankie is making in his life, and eventually, she decides to turn her life around too. She tells Frankie that she is going to clean up her act, stop selling drugs, get a job, and join a recovery program. Frankie tells Tori Ann how proud he is of her, and they make love passionately.

Eventually, Frankie is approached by a drug dealer named James Randson. James demands that Frankie act as a drug courier for one of his shipments. Frankie takes this opportunity to redeem himself as a police officer. Frankie visits his old lieutenant at the police station, and offers to go undercover to clear his name by bringing in the bust.

Before leaving for the drug deal, Frankie learns that he has won two million dollars from the lottery. Undeterred, Frankie follows through as an undercover officer. The drug deal does not go as originally planned, but Frankie successfully arrests the drug dealers by himself. Upon leaving the bust, Frankie visits his brother, Augustus, a priest who had earlier told Frankie of an orphanage [*10] that had burnt down. Frankie offers to give one million dollars to rebuild the orphanage.

Frankie returns to Toni Ann's apartment and is immediately attacked by James and his bodyguards. James enters the apartment and shoots Frankie three times. Toni Ann bursts from the closet shooting back at the intruders. As James gets a straight shot at Toni Ann, Angel Man appears and wraps his wings around her, blocking all the bullets. Toni Ann then fires her gun and kills James. Toni Ann rushes to Frankie, but is too late. Frankie tells Tori Ann that he will always love her, and the scene fades to black. Then, Frankie appears with white wings and clothed like Angel Man. Angel Man tells Frankie that he's earned his wings back and that it is time to "cross over." The screenplay concludes with Frankie as an angel standing watch over Toni Ann as she sleeps.

C. Overview of Earl

The pilot episode of Earl begins with a family pulling up to a convenience store as the main character, Earl Hickey ("Earl"), enters the store. The family waits until Earl leaves the convenience store for fear of going in at the same time as Earl. When Earl exits, the family enters, only to have Earl break into the family's car. [*11] Throughout this whole opening, Earl narrates that he is the type of guy who will pretty much steal anything that is not nailed down.

Earl then goes on to narrate his relationship with the other characters in the show. As he introduces the characters, we see flashbacks of the instances he is narrating. First, Earl introduces Joy, who Earl drunkenly married during a one night stand in Las Vegas. Earl describes himself as being so drunk that he did not notice that Joy was actually six months pregnant when they were married. Earl explains that a few years later, Joy became pregnant again. Initially, Earl believed Joy was carrying his child; however, when the child is born, Earl sees that the child is partially African American. As Earl and Joy are both white, Earl realizes that the child, named Earl Jr., is not his own. Earl also introduces Randy, his dimwitted brother. Joy, Randy and Earl all hang out at Ernie's crab shack. At the crab shack, they are served by Darnell, who Earl calls "Crabman."

Earl narrates that three weeks prior, he bought a scratcher lottery ticket, and won $100,000. The audience sees a flashback of Earl celebrating his win, and then immediately getting hit by a car. [*12] Lying on the asphalt, Earl sees his lottery ticket fly away. While recuperating in the hospital, Joy divorces Earl and announces that Darnell, "Crabman," is actually Earl Jr.'s father.

Lying alone in the hospital, Earl watches the Carson Daly Show. On the show, the guest asks Daly how he has such a good life. Daly responds: "What goes around comes around, and that's how I try to live my life. You do good things and good things happen to you, you do bad things and it'll come back to harm you. It's karma."

Once Earl is out of the hospital, Earl and Randy check into a motel, where they make friends with the maid, Catalina. Earl adopts Daly's theory of karma, and puts it into action. Earl explains: "If I want a better life, I need to be a better person." Accordingly, Earl makes a list of everything bad he has ever done. He explains that "I just won a hundred thousand dollars in the lottery and was immediately hit by a car. I almost died because something good happened to me that I didn't deserve. That karma stuff is going to kill me, unless I make up for everything on that list."

On the list are specific acts, such as "peed in the back of a cop car," as well as general bad habits, such as [*13] "harmed and killed innocent people with second hand smoke." Earl decides that the first wrong he is going to make amends for is his picking on Kenny James in elementary school. Earl's idea is to find Kenny, do something nice for him, and then cross him off the list.

As Earl describes his new theory of life, the very $100,000 scratcher that flew away from Earl when he was hit by the car flies back to him. Earl responds: "Son of a bitch- it's working."

Earl and Randy then turn to finding Kenny. As Earl reminisces about tormenting Kenny, we see flashbacks of Earl bullying Kenny by kicking Kenny in the groin on a kickball field. Back in the present, Earl decides to watch Kenny for a few days. Earl concludes that Kenny is lonely, and that Earl will help Kenny by finding him a companion. Eventually, Earl and Randy find out that Kenny is gay. In response, Earl and Randy run from Kenny, and Earl states that he does not have to help Kenny because he is homosexual. However, when they reach their hotel room, they find Joy. Joy has ransacked the room looking for the lottery money. As Earl and Randy enter the room, Joy hits them on the head with a telephone.

Earl interprets Joy's breaking into his [*14] room as a sign from karma that he cannot give up on Kenny just because he is gay. Earl eventually helps Kenny find companionship by taking Kenny to a gay bar in the city. At the end of the episode, Kenny tells Earl that he was scared to be who he really was, but that he no longer is scared because of Earl's kindness. Kenny states: "When we were kids, you took away my confidence, but today you gave it back . . . You can cross me off your list."

Thereafter, each episode follows a similar formula with Earl choosing one item off his list, and setting out to amend for his actions. Each episode starts out with the same narration:

> You know the kind of guy who does nothing but bad things, and then wonders why his life sucks. Well, that was me. Every time something good happened to me, something bad was always waiting around the corner. Karma. That's when I realized I had to change. So I made a list of everything bad I've ever done. And one by one I'm going to make up for all my mistakes. I'm just trying to be a better person. My name is Earl.

Episodes in the first season include: Earl making amends for faking his own death to get out of a relationship by telling the woman that he is still alive; [*15] Earl making up for teasing people with accents by teaching English to immigrants; Earl redeeming himself for burning down a barn at a local camp for wayward boys; and Earl helping Joy win a beauty pageant in order to make up for an award Earl once broke. As Earl works through the items on his list, he often commits additional wrongs, adding them to his seemingly never-ending tally.

III. ANALYSIS

A. Legal Standard

Rule 56(c) requires summary judgment for the moving party when the evidence, viewed in the light most favorable to the nonmoving party, shows that there is no genuine issue as to any material fact, and that the moving party is entitled to judgment as a matter of law. See *Fed. R. Civ. P. 56(c)*; *Tarin v. County of Los Angeles, 123 F.3d 1259, 1263 (9th Cir. 1997).*

The moving party bears the initial burden of establishing the absence of a genuine issue of material fact. See *Celotex Corp v. Catrett, 477 U.S. 317, 323-24, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986)*. That burden may be met by "'showing' - that is, pointing out to the district court - that there is an absence of evidence to support the nonmoving party's case." *Id. at 325*. Once the moving party has met its initial burden, *Rule 56(e)* requires the nonmoving [*16] party to go beyond the pleadings and identify specific facts that show a genuine issue for trial. See *id. at 323-34*; *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1968)*. "A scintilla of evidence or evidence that is merely colorable or not significantly probative does not present a genuine issue of material fact." *Addisu v. Fred Meyer, 198 F.3d 1130, 1134 (9th Cir. 2000)*. Only genuine disputes - where the evidence is such that a reasonable jury could return a verdict for the nonmoving party - over facts that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment. See *Anderson, 477 U.S. at 248*; see also *Arpin v. Santa Clara Valley Transp. Agency, 261 F.3d 912, 919 (9th Cir. 2001)* (the nonmoving party must identify specific evidence from which a reasonable jury could return a verdict in its favor).

B. Copyright Infringement

To establish copyright infringement, Plaintiff must show that he owns a valid copyright in Karma!, and that Defendants copied protected expressions from it. See *Kouf v. Walt Disney Pictures & Television, 16 F.3d 1042, 1044 n.2 (9th Cir. 1994)*. For the purposes of summary judgment, Defendants do not dispute [*17] that Plaintiff owns a copyright in Karma! Thus, the only question before the Court is whether Defendants copied protected expressions from the work.

To prove copyright infringement, Plaintiff must show that Defendants copied protected elements of Karma! either through evidence of direct copying or through a showing that Defendants had "access" to Plaintiff's copyrighted material and that the two works at issue are "substantially similar." See *Funky Films, Inc. v. Time Warner Entertainment Co., L.P., 462 F.3d 1072, 1076 (9th. Cir. 2006)*; *Three Boys Music Corp. v. Bolton, 212 F.3d 477, 481 (9th Cir. 2000)*. Here, Plaintiff does not allege direct copying by Defendants; rather Plaintiff contends that Garcia had access to Karma! through TGA, and that the works are substantially similar.

The required elements of access and substantial similarity are related - that is, the plaintiff's burden of proof on each element rests partly on the strength of his showing on the other element. Thus, in rare cases, a plaintiff can prove copying even without proof of access "if he can show that the two works are not only substantially similar, but are so strikingly similar as to preclude the possibility of [*18] independent creation." *Meta-Film Assocs., Inc. v. MCA Inc., 586 F. Supp. 1346, 1355 (C.D. Cal. 1984)* (citing 3 *Nimmer on Copyright § 13.01[B]* and *Ferguson v. Nat'l Broadcasting Co., Inc., 584 F.2d 111, 113 (5th Cir. 1978))*. In such instances, access will be inferred from the "striking" similarities between the works. Id. This rule only applies, however, where "as a matter of logic, the only explanation [for the similarities] between the two works must be 'copying rather than . . . coincidence, independent creation, or prior common source.'" 4-13 *Nimmer on Copyright § 13.02[B]* (2009) (citations omitted).

Conversely, under the "inverse ratio rule" recognized by the Ninth Circuit, courts "require a lower standard of proof of substantial similarity when a high degree of access is shown." *Three Boys Music, 212 F.3d at 485*. [2] To benefit from this rule, Plaintiff must offer proof of access which is greater than or "more compelling than that which is offered in the usual copyright case." *Idema v. Dreamworks, Inc., 162 F. Supp. 2d 1129, 1176 (C.D. Cal. 2001)* (holding that the inverse ratio rule did not apply because "the general unavailability of plaintiffs' works, especially those that were [*19] unpublished, other than by way of their alleged 1994 and 1995 submissions to [defendants] makes 'access' to plaintiffs' copyrighted works somewhat *less* than might be available in a large number of cases.") (emphasis in original). Conversely, where plaintiff's theory of access is based solely on "speculation, conjecture or inference," plaintiff cannot demonstrate the high degree of access necessary to invoke the inverse ratio rule. *Rice v. Fox Broadcasting Co., 330 F.3d 1170, 1178 (9th Cir. 2002)*; see id. Finally, in Ninth Circuit cases applying the inverse ratio rule, generally the defendant concedes that he or she had access to plaintiff's copyrighted work; and this "concession of access . . . [is] a prominent factor in [the court's analysis]." *Rice, 330 F.3d at 1178* (citing to *Shaw v. Lindheim, 919 F.2d 1353, 1361-62 (9th Cir. 1990)* and *Metcalf v. Bochco, 294 F.3d 1069, 1075 (9th Cir. 2002))*. [3]

2 It should be noted that the inverse ratio rule only works in one direction - that is, while a strong showing of access will result in a lower threshold showing of substantial similarity, a weak showing of access does not require a greater showing of similarities between the plaintiff's and [*20] defendant's works. *Three Boys Music, 212 F.3d at 486* ("We have never held, however, that the inverse ratio rule says a weak showing of access requires a stronger showing of substantial similarity.")

3 Even in cases in which the inverse ratio rule applies, it is not clear just how much less the showing of substantial similarity need be, given the high degree of access shown. In Shaw, the Ninth Circuit applied the inverse ratio rule where defendants conceded access to plaintiff's script. *919 F.2d at 1361-62*. However, the court merely held that the high degree of access was "a factor to be considered in favor of [plaintiff]." *Id. at 1362*. In contrast, *Metcalf v. Bochco, 294 F.3d 1069 (9th Cir. 2002)*, suggests that the plaintiff receives a greater benefit from the inverse ratio rule. In Metcalf, where the writer of the infringing work admitted that he received and read three versions of plaintiff's work and passed it on to the star actor in the infringing work, the court found that "[plaintiffs'] case is strengthened considerably by [defendant's] concession of access to their works." *294 F.3d at 1075*. The court stated that if the trier of fact were to believe that the defendants read the [*21] scripts, "it could easily infer that the many similarities between plaintiffs' script and defendants' work were the result of copying, not mere coincidence." Id.

Although the exact effect of the inverse ratio rule is unclear, in this case, plaintiff has not introduced sufficient evidence of access to invoke the inverse ratio rule (see *infra* section III.B.1); thus, the Court need not resolve this issue.

1. Access[4]

4 Plaintiff does not argue that Earl and Karma! are so strikingly similar so as to allow plaintiff to prevail without a showing of access. Indeed, for the reasons discussed *infra* section III.B.2, the Court holds that the works are not strikingly similar.

To prove access, Plaintiff must show that the Defendants had a "reasonable opportunity" or "reasonable possibility" of viewing Plaintiff's work prior to the creation of the infringing work. *Three Boys Music, 212 F.3d at 482*; *Baxter v. MCA, Inc., 812 F.2d 421, 423 (9th Cir. 1987)*. Reasonable access requires more than a "bare possibility," and "may not be inferred through mere speculation or conjecture." *Three Boys Music, 212 F.3d at 482*. "In order to support a claim of access, a plaintiff must offer 'significant, affirmative and [*22] probative evidence.'" *Jorgensen v. Epic/Sony Records, 351 F.3d 46, 51 (2d Cir. 2003)* (affirming summary judgment against the plaintiff on the issue of access where the plaintiff produced "no reasonable documentation that he actually mailed [tapes of the allegedly infringed work]") (citing *Scott v. Paramount Pictures Corp., 449 F. Supp. 518, 520 (D.D.C. 1978))*.

Access is often proven through circumstantial evidence in one of two ways: "(1) a particular chain of events is established between the plaintiff's work and the defendant's access to that work . . . or (2) the plaintiff's work has been widely disseminated." *Idema, 162 F. Supp. 2d at 1175* (citing to *Three Boys Music, 212 F.3d at 482*). Here, Plaintiff does not contend that his screenplay was widely distributed; instead, Plaintiff attempts to prove access by establishing a chain of events linking Plaintiff's screenplay with Defendants' work.

Specifically, Plaintiff argues that the creator of Earl, Garcia, had access to Karma! through Plaintiff's submission of the screenplay to TGA in mid-1995. [5] Plaintiff offers his own declaration and that of his girlfriend Cindy Cramer, who assisted him with the mailing, as evidence that Plaintiff [*23] mailed Karma! to Gersh at TGA in the spring of 1995. However, Plaintiff has produced no documentary evidence of the mailing. Further, there is no evidence that Plaintiff received any response from TGA or that Gersh or anyone at TGA otherwise acknowledged receipt. This lack of documentation regarding the mailing weighs in favor of granting summary judgment. See *Jorgensen, 351 F.3d at 52* (affirming summary judgment where the plaintiff "did not maintain a log of where and when he sent his work, or keep receipts from certified mailings to establish a chain of access") (internal citations omitted); see also *Rice, 330 F.3d at 1178*. Both Gersh and Neisser deny ever receiving or reading any submission from Plaintiff, including Karma! (Gersh Decl. P 5; Neisser Decl. P 5.)

5 Plaintiff also stated in his declaration that he sent Karma! to Creative Artists Agency ("CAA") in 1995, but he did not state who it was sent to. (Gable Decl. P 13.) Although Garcia became a client of CAA in 2000, Plaintiff does not argue that Garcia received access to Karma! through CAA, and has offered no evidence to support such a theory.

Assuming, however, that TGA received the screenplay, Plaintiff argues that once Gersh [*24] received Karma!, it is reasonable that Garcia, as a client of TGA, would have access to it. Plaintiff offers two theories in support of this proposition. First, Plaintiff argues that Gersh may have given Garcia access to the screenplay directly, as Gersh's name was listed on Garcia's contract with TGA as one of Garcia's key contacts. Second, Plaintiff argues that there is a reasonable possibility that Gersh or someone else at TGA gave Plaintiff's screenplay to Neisser, another agent at TGA and the literary agent for Garcia, who then could have passed it on to Garcia. Plaintiff does not present any evidence that Gersh or Neisser had any contact with Garcia after Garcia left TGA in 2000; thus, Plaintiff's theory of access assumes that Garcia must have been given access to Karma! several years before Garcia claims to have created Earl. [6]

6 While Plaintiff presents evidence of Garcia's different explanations as to *how* he came up with the idea for Earl, Plaintiff does not appear to dispute *when* Garcia created Earl - i.e., sometime in 2003. In short, there is no evidence to refute Garcia's testimony that he created Earl in 2003.

The Court holds that Plaintiff's evidence of access is far too [*25] weak to trigger the inverse ratio rule. [7] In Rice v. Fox Broadcasting Company, the Ninth Circuit rejected application of the inverse ratio rule under analogous facts. *330 F.3d 1170 (9th Cir. 2003)*. In Rice, Robert Rice claimed that Fox Broadcasting Company had infringed on Rice's work, The Mystery Magician, when Fox developed a series of television specials about magic ("Specials"). *Id. at 1173*. Rice claimed that he sent two copies of his work and a pitch sheet for a proposed programming idea to Fox's Senior Vice President of Specials and Alternative Programming, Michael Darnell, who was an active participant in developing the infringing work. *Id. at 1178*. Rice also claimed that the defendants were aware of The Mystery Magician because

Rice gave copies of the work to his agent at ICM, who in turn sent a copy of the video to Fox. Id. Lastly, Rice claimed that when he would visit his own agent at ICM, he "would often chat with Steve Wohl, a fellow agent at ICM, and that Wohl repeatedly told Rice that he 'loved' the idea behind the Mystery Magician and that it would be a 'smash hit.'" Id. Rice reasoned that "[b]ecause Wohl was Bruce Nash's agent, . . . [and] Nash . . . was an active participant [*26] along with Darnell in developing the Specials," Nash had access to The Mystery Magician. Id.

7 Plaintiff does not argue that the inverse ratio rule applies.

The Ninth Circuit rejected Rice's claims. First, regarding the alleged transmission to Michael Darnell, the Court discounted this evidence because there was "no copy of the purported pitch and [plaintiff] never received a response from Fox." Id. Second, as to "the complicated thread involving Marks, Wohl, Nash and Darnell," the court noted that Rice had no evidence that Wohl "provided The Mystery Magician to Nash, Darnell or anyone else at either Nash Entertainment or Fox." Id. As such, the Ninth Circuit found that Rice's claims were "based on speculation, conjecture, and inference which are far less than the 'high degree of access' required for application of the inverse ratio rule." Id.

Similarly, here, there is no evidence that: (1) Plaintiff ever received a response from Gersh or anyone at TGA; (2) that Neisser had access to the script himself (either through Gersh or otherwise), or (3) that anyone at TGA transferred the script to Garcia. Finally, there is no concession of access here by Defendants. As such, Plaintiff's chain of [*27] events is too speculative to trigger the inverse ratio rule.

Further, Plaintiff cannot create a triable issue of access merely by showing "bare corporate receipt" of his work by an individual who shares a common employer with the alleged copier. *Jorgensen, 351 F.3d at 52-53*; *Meta-Film, 586 F. Supp. at 1358*. Instead, to avoid summary judgment, a plaintiff must show that he submitted his work to an intermediary *who is in a position to transmit the plaintiff's work to the creators of the infringing work. Meta-Film, 586 F. Supp. at 1355-56*. The intermediary can be a person who (1) has supervisory responsibility for the allegedly infringing project, (2) contributed ideas and materials to it, or (3) worked in the same unit as the creators. Id.; see, e.g., *De Acosta v. Brown, 146 F.2d 408, 410 (2d Cir. 1944)* (sufficient evidence of access presented where plaintiff submitted her work to a literary agent who thereafter was consulted by the defendant as to research details regarding the infringing work). At a minimum, however, "the dealings between the plaintiff and the intermediary and between the intermediary and the alleged copier must involve some overlap in subject matter to permit an inference [*28] of access." *Meta-Film, 586 F. Supp. at 1358* (citing *Kamar Int'l Inc. v. Russ Berrie and Co., 657 F.2d 1059 (9th Cir. 1981)* and *Russ Berrie & Co. v. Jerry Elsner Co., Inc., 482 F. Supp. 980, 989 n.7 (S.D.N.Y. 1980))*. In sum, the plaintiff must show a sufficient nexus between "the individual who possesses knowledge of a plaintiff's work and the creator of the allegedly infringing work." *Id. at 1357*.

For example, in Jorgensen, the Second Circuit affirmed summary judgment as to some defendants on the issue of access where the plaintiff could not produce documentary evidence to show that he mailed out his work, and presented no evidence that those who did receive his work had any relationship with the creators of the allegedly infringing work. *351 F.3d at 52-53*. Similarly, in Meta-Film, the court granted summary judgment on access where the plaintiff showed his work to a director who was under contract with the defendant studio and worked on the studio lot, but could not demonstrate any connection between the director and the studio's allegedly infringing project. *586 F. Supp. at 1356-59*. As the court explained, "countless unsolicited scripts are submitted to numbers of individuals on studio [*29] lots everyday." *Id. at 1357-58*. "Under these circumstances, it is clearly unreasonable to attribute the knowledge of any one individual-especially a non-employee- to every other individual just because they occupy offices on the same studio lot." Id. The court in Meta-Film also rejected plaintiff's theory that access was shown by the fact that the director to whom she submitted her work had dealings with an executive involved in producing the infringing work. *Id. at 1358*. The court found that the executive did not make any creative contributions to the infringing work and the meetings between the two men had nothing to do with either plaintiff's work or the infringing work. Id. Thus, access could not be inferred from those meetings.

Finally, in Jones v. Blige, the Sixth Circuit affirmed summary judgment on the issue of access where plaintiff demonstrated that she had sent her work to Andy McKaie, a Senior Vice President at Universal, and the allegedly infringing artists, Mary J. Blige and Andre Young, had a recording contract and a distribution joint venture, respectively, with Universal. *558 F.3d 485, 491-92 (6th Cir. 2009)*. The court held: "While it is true that both Young and Blige [*30] dealt with Universal in certain respects, there is no evidence that either they or anyone else involved in the creation of [the allegedly infringing work] had any contact with McKaie or his division . . . ." *Id. at 492*.

Here, Plaintiff cannot establish more than bare corporate receipt. As noted above, Plaintiff has not introduced any documentary evidence to support the claim that Plaintiff sent Karma! to Gersh at TGA, or that the screenplay ever actually reached Gersh. However, even generously assuming that Plaintiff's submission reached Gersh, there is no evidence that Gersh had any contact with Garcia. It was Neisser, not Gersh, who represented Garcia at TGA. (PSGI 28; Neisser Decl. P 2; Garcia Decl. P 6.) Although Gersh's name was listed on Garcia's contract, Gersh testified that he did not have any dealings with Garcia, and there is no evidence that the two ever spoke. (Gersh Decl. P 7.) Further, there is no evidence that Gersh had any supervisory responsibility for Earl or any involvement in the creation of the series. These facts clearly cut against a finding of access.

Nonetheless, Plaintiff argues that Gersh may have passed the script along to Neisser, who then may have passed [*31] it along to Garcia. [8] Neisser testified in his deposition that he spoke to Gersh on a regular basis and that "TGA was a relatively small . . . place." (PSGI 73 [Neisser Depo. 50:22-25; 89:22-89:8].) The evidence demonstrates that 20 to 25 agents worked at TGA in mid-1995. (PSGI 32.) However, there is no evidence that Gersh and Neisser ever worked on any projects together. (See PSGI 32-35.) Neisser worked in the "television lit" department, which was relatively autonomous, and Gersh did not oversee that department or attend its regular meetings. (Pl. Compendium Exh. K [Neisser Depo., at 89:2-19], Exh. J [Gersh Depo., at 46:16-47:16, 49:5-16].) Nonetheless, Neisser testified that TGA had weekly meetings of all the Los Angeles agents, which Gersh sometimes attended. (PSGI 35 [Neisser Depo. at 43:5-21, 89:2-90:2].) Finally, Neisser gave vague testimony that he had meetings with "all three Gershes [9] about what was going on in the department, about the business" and that they "talked all the time." (PSGI 73.) [10] In sum, viewing the record in the light most favorable to Plaintiff, there is evidence that Gersh, the person allegedly with knowledge of Plaintiff's script, had some meetings or [*32] discussions with Neisser, who in turn had a connection with Garcia.

8 Alternatively, Plaintiff appears to argue (without citation to any relevant authority) that because TGA, the entity, received Plaintiff's screenplay, access can be shown by the fact that Garcia had an agency relationship with TGA. (Opp'n at 23.) Thus, Plaintiff argues that Garcia's access was not through an intermediary in this case because an entity, TGA, with legal authority to represent Garcia received the work. (Id.)

Plaintiff's argument makes little sense. TGA, as an entity, cannot give Garcia access to Karma!. The case law discussing access addresses whether actual persons are in a position vis-A-vis the creator to allow for reasonable access. Access is not a metaphysical concept, it requires a reasonable possibility that the actual creator(s) has seen (or heard or read) the work which is allegedly infringed. Thus, TGA cannot have access "on Garcia's behalf." Further, Plaintiff's argument is contradicted by the rule that bare corporate receipt does not impute knowledge of such receipt to all persons affiliated with the corporation.

9 The "three Gershes" refer to David Gersh, Bob Gersh, and Phil Gersh. Neisser considered [*33] all of them to be his bosses at TGA. (Pl. Compendium Exh. J [Gersh Depo. at 24:5-17].)

10 Gersh's deposition testimony, in some respects, differs with Neisser's testimony. Specifically, Gersh testified that TGA had weekly "staff meetings" of the agents, but he could not recall what year those staff meetings began. (Pl. Compendium Exh. K [Gersh Depo. at 44:5-13].) It is not clear whether these are the "all agent meetings" that Neisser was referring to. Gersh also testified that all meetings in the mid-1990s were informal, and that he met with Neisser "very rarely" - generally, once every 3 or 4 months - during that time period. (Id. at 46:6-13.) Finally, Gersh testified that he had little, if any, connection with the department Neisser worked in, and "wouldn't really have any reason to have any discussion with him other than a social how are you kind of thing." (Id. at 46:10-24.)

> For purposes of summary judgment, the Court must view the evidence in the light most favorable to the non-moving party, Plaintiff, in this case. Thus, while the Court does not find Neisser and Gersh's testimony to be flatly inconsistent, as Plaintiff contends, the Court accepts Neisser's testimony for the purposes [*34] of this motion.

The Court holds that this connection is far too attenuated and speculative to support an inference of access. Although Gersh and Neisser clearly spoke to one another, Plaintiff has not offered any evidence that Gersh and Neisser ever had discussions about Karma! or Earl or about any other projects that Garcia was working on. Further, there is no showing that Neisser had any involvement or influence in the creation of Earl. Thus, there is no evidence that discussions between Gersh and Neisser involved any overlap in the subject matter of discussions between Neisser and Garcia. See *Meta-Film, 586 F. Supp. at 1358*.

In some respects, Plaintiff's theory of access is even more attenuated than that offered in Meta-Film. In Meta-Film, the plaintiff submitted a script called "Frat Rats" to a movie director, Badham, who specifically acknowledged receipt and admitted to reading the script. *Id. at 1352*. Badham had several meetings with an executive at Universal named Ned Tanen about an unrelated project. *Id. at 1353*. Plaintiff speculated that during these meetings, Badham may have given "Frat Rats" to Tanen or told him about it. See id. Tanen, in turn, was instrumental in bringing [*35] the allegedly infringing work, "Animal House" to Universal, but there was no evidence that Tanen had creative input in Animal House. *Id. at 1353*. The Court found that Plaintiff's submission to Badham, "as a matter of law, cannot sustain a finding of access." *Id. at 1359*.

Here, unlike the director in Meta-Film, Gersh did not acknowledge receipt of Karma!. Even assuming he had, however, all Plaintiff can show is that, like Badham and Tanen, Gersh and Neisser had meetings about certain projects and discussed unspecified "business." There is no evidence that they ever discussed Plaintiff's screenplay or any of Garcia's work, and there is nothing in the record indicating that Gersh or Neisser had creative influence in *any* of Garcia's projects, much less Earl. [11] (See Garcia Decl. P 2.) Thus, Plaintiff's theory of access fails as a matter of law.

> 11 The timing of events also casts doubt on the element of access. Although Plaintiff transmitted his screenplay to TGA before Earl was created, eight years passed between Plaintiff's submission and the time Garcia claims to have created Earl. Further, there is no evidence that Garcia had any continuing contact with Neisser (or Gersh) after he left [*36] TGA in 2000. Thus, in order for Plaintiff's theory of access to be possible, either Gersh or Neisser must have given Garcia access to Karma! before Garcia left TGA in 2000, and several years before the creation of Earl. While this is certainly not fatal to Plaintiff's claim, see *Three Boys Music, 212 F.3d 477 (9th Cir. 2000)*, it weighs against the plausibility of Plaintiff's alleged chain of connections.

Before addressing substantial similarity, the Court will address one further argument regarding access. Here, the parties vigorously dispute whether TGA had any formal policy regarding the submission of unsolicited scripts in 1995, when Plaintiff allegedly submitted Karma! to Gersh. Gersh and Neisser both declared that, in 1995, TGA had a policy of not considering unsolicited screenplays; instead, such screenplays would be returned to the sender or discarded. (Neisser Decl. P 3; Gersh Decl. P 2.) They also declared that their personal practices were not to consider unsolicited screenplays, but to return or discard them. (Neisser Decl. P 4; Gersh Decl. P 4.) Plaintiff launched several objections to these declarations, and noted that no written TGA policy about unsolicited materials had [*37] been produced. (PSGI 42; Pl. Evidentiary Objections [Docket 53].) Finally, Plaintiff also submitted the declaration of expert witness Eric Sherman ("Sherman") regarding the custom and practice of agencies in the mid-1990s relating to unsolicited submissions. Plaintiff argued that, given industry practice, it was highly likely that someone at Gersh read Karma! (Opp'n at 28; Sherman Decl. P 8.)

Plaintiff's argument fails for several reasons. First, regardless of whether TGA had an agency-wide policy relating to unsolicited scripts, Neisser and Gersh both clearly testified that it was their personal practice not to consider unsolicited scripts. (Pl. Compendium Exh. K [Neisser Depo. at 52:10-24, 54:1-11, 90:17-92:9]; Suppl. Rubin Decl. Exh. 3 [Neisser Depo. at 96:4-24, 98:8-19]; Pl. Compendium Exh. J [Gersh Depo. at 26:11-27:24]; Suppl. Rubin Decl. Exh. 4 [Gersh Depo. at 20:24-24, 29:25-30:21].) Further, the undisputed evidence demonstrates that Neisser and Gersh instructed their assistants not to accept unsolicited scripts. (Id.) Plaintiff has presented no evidence that Gersh or Neisser ever read an unsolicited script.

Second, the Court rejects the declaration of Plaintiff's expert, Sherman, [*38] as it does not meet the requirements of *Federal Rule of Evidence 702*. See *Daubert v. Merrell Dow Pharmaceuticals, Inc., 509 U.S. 579, 597, 113 S. Ct. 2786, 125 L. Ed. 2d 469 (1993)*. Sherman declares that he has worked in the entertainment industry for 40 years. (Sherman Decl. P 2.) He has taught classes on, and authored books on, the television and film business. (Id.; see Pl. Compendium Exh. L [Sherman's Curriculum Vitae].) Finally, Sherman has acted as a consultant to "clients in the entertainment industry," and in that capacity, has contacted different Los Angeles talent agencies on "hundreds" of occasions regarding submitting scripts to persons represented by those agencies. (Sherman Decl. P 3.) Based on this experience, Sherman offers testimony as to the custom of talent agencies regarding unsolicited submissions in the mid-1990s. Sherman opines that, in 1995, the agencies had "widely divergent policies concerning 'unsolicited submissions.'" (Id. P 4.) Further, "these policies were far from uniform and by no means rigorously applied in 1995." (Id.) Sherman also opines, however, that "the custom and practice in the entertainment industry (circa mid-90's)" is that agents would read unsolicited submissions if the following [*39] criteria were met: "(a) when it has a provocative or catchy title; (b) the appearance and/or packaging of the submission is appealing; (c) the name of the author is a familiar name in the industry; (d) the first ten pages are compelling; or (e) the genre is one in which there is a particular need at the time." (Id. P 5.) Sherman states that, in his opinion, Karma! met four of these five criteria, and therefore likely was read by someone at the Gersh agency. (Id. P 8.)

Sherman's expert testimony is not reliable. Sherman first tells the Court that there was ***no*** standard practice in the industry regarding unsolicited scripts - i.e., the agency policies were "widely divergent" - but then declares that agents generally read unsolicited scripts when some combination of 5 criteria were met. Sherman cannot purport to testify as to a custom and practice without first establishing that such a practice existed. See *United States v. Fredette, 315 F.3d 1235, 1239-40 (10th Cir. 2003)* (expert's experience regarding the industry standard for rebate programs gave him "no special insight" into defendant's rebate program where the expert admitted that defendant's program was different than any he had encountered [*40] before), *Louie v. British Airways, Ltd., Case No. A01-0329, 2003 U.S. Dist. LEXIS 24750, 2003 WL 22769110, at * 10-11 (D. Alaska 2003)* (expert affidavit could not establish that defendants' failure to warn violated industry standards where there was no evidence that such a standard existed at the relevant time period); see also, 25 C.J.S. Customs and Usages § 45 ("Proof of matters pertaining to custom is not admissible before the existence of the custom has been established by the evidence."). Here, Sherman has completely undermined his own-conclusion regarding industry practice.

Further, Sherman offers no support for the 5 criteria he provided; he never explains where such criteria come from or why he believes that talent agents used those criteria in the mid-1990s. Sherman does not identify a single agency he dealt with in the relevant time period, and he offers no testimony related to TGA's practices. [12] Thus, Sherman has not identified the principles and methods that he used to form his opinion, making it impossible for the Court to evaluate whether such methods are reliable. See *Fed. R. Evid. 702*; *In re Canvas Specialty, Inc., 261 B.R. 12 (C.D. Cal. 2001)*. Finally, Sherman's opinion that Karma! met four of [*41] the five criteria he proposed is entirely unsupported and conclusory. He has not offered any evidence regarding how a literary agent would apply these criteria, nor has he offered any examples of instances where his clients' unsolicited scripts were reviewed for these reasons. Sherman's personal opinion that the title of Plaintiff's work is "catchy," that the first 10 pages are compelling, and soon, is not based on specialized knowledge and does not assist the trier of fact. *Fed. R. Evid. 702*, advisory committee notes (an expert relying primarily on experience must "explain how that experience leads to the conclusion reached . . . and how that experience is reliably applied to the facts"); *Fredette, 315 F.3d at 1240*. The Court therefore disregards Sherman's testimony. [13] *Claar v. Burlington Northern R.R., 29 F.3d 499, 502-503 (9th Cir. 1994)* (trial court may exclude from its summary judgment consideration proffered expert testimony that is not reliable).

12 Sherman's testimony about the practices of agents at Creative Artists' Agency (CAA) is irrelevant. Plaintiff has not argued that Garcia

received access to Plaintiff's script through CAA. Thus, the policies of other agencies are only [*42] relevant to the extent that they indicate a standard in the industry and therefore can support a conclusion about TGA. However, Sherman admitted there was no standard industry practice regarding unsolicited scripts among the Los Angeles talent agencies in the mid-1990s.

13 It is important to note, however, that even had the Court accepted Sherman's opinion, it would not change the outcome. At best, Sherman's opinion merely supports a finding that it was likely that "someone" at TGA, likely Gersh, read Karma!. Nonetheless, for the reasons stated above, Plaintiff has not established that this "someone" was an intermediary under Meta-Film.

In sum, even generously assuming that Plaintiff's submission of Karma! actually reached Gersh, the record is insufficient to allow a reasonable jury to infer that Garcia had access to Karma. Thus, summary judgment for Defendants is appropriate.

Finally, even if the weak evidence of access were sufficient to create a triable issue of fact, Plaintiff would still have to present evidence allowing reasonable minds to conclude that Karma! and Earl are substantially similar. As discussed below, Plaintiff has failed to meet this burden.

2. Substantial Similarity

In [*43] addition to access, the issue of substantial similarity provides an independent ground for granting summary judgment. To determine whether two works are substantially similar, the Ninth Circuit applies a two-part test consisting of extrinsic and intrinsic components. *Rice, 330 F.3d at 1174*. The extrinsic test involves an objective comparison of the two works. The Court must consider "whether [the works] share a similarity of ideas and expression as measured by external, objective criteria." *Swirsky v. Carey, 376 F.3d 841, 845 (9th Cir. 2004)*. The extrinsic test requires an "analytic dissection" of the works, and is often aided by expert testimony. Id.

The intrinsic component of the substantial similarity test is subjective and depends solely on the response of the ordinary lay observer. *Berkic v. Crichton, 761 F. 2d 1289, 1292 (9th Cir. 1985)*. "To that extent, expert testimony or the comparison of the individual features of the works is inappropriate in applying the intrinsic test." Id. Instead, the trier of fact "ordinarily decides whether the 'total concept and feel' of the two works is substantially similar." Id.; *Kouf v. Walt Disney Pictures & Television, 16 F.3d 1042, 1045 (9th Cir. 1994)*.

"For [*44] summary judgment, only the extrinsic test is important." *Kouf, 16 F.3d at 1045*. "A plaintiff who cannot satisfy the extrinsic test necessarily loses on summary judgment, because a jury cannot find substantial similarity without evidence on both the extrinsic and intrinsic tests." Id. Further, because the intrinsic test relies on the subjective judgment of the ordinary person, it must be left to the jury. *Swirsky, 376 F.3d at 845*. Thus, the Court's analysis on summary judgment is limited to the extrinsic test.

Where literary works (films, screenplays, television series, etc.) are at issue, the extrinsic test is an objective evaluation of "the articulable similarities between the plot, themes, dialogue, mood, setting, pace, characters, and sequence of events." Id. In applying the test, the Court must distinguish between protectable and unprotectable material, because a party claiming infringement may not rely on expressions from unprotected elements. *Rice, 330 F.3d at 1174*. For example, general plot ideas are not protectable and cannot give rise to a copyright infringement claim. See *Berkic, 761 F.2d at 1293* ("General plot ideas are not protected by copyright law; they remain forever [*45] the common property of artistic mankind."). Further, the doctrine of *scenes a faire* "holds that expressions indispensable and naturally associated with the treatment of a given idea 'are treated like ideas and are therefore not protected by copyright.'" *Rice, 330 F.3d at 1175* (quoting *Apple Comp. Inc. v. Microsoft Corp., 35 F. 3d 1435, 1444 (9th Cir. 1994))*. Accordingly, the extrinsic test examines "not the basic plot ideas for stories, but the actual concrete elements that make up the total sequence of events and the relationships between the major characters." *Berkic, 761 F.2d at 1293*.

Summary judgment on the issue of substantial similarity is appropriate "if no reasonable juror could find substantial similarity of ideas and expression." *Funky Films, 462 F.3d at 1077* (quoting *Kouf, 16 F.3d at 1045*). Although summary judgment is not highly favored on the issue of substantial similarity in copyright cases, "substantial similarity may often be decided as a matter of law." Id. (quoting *Sid & Marty Krofft Television Prods. Inc. v. McDonald's Corp., 562 F.2d 1157, 1164*

(9th Cir. 1977)). Indeed, the Ninth Circuit "ha[s] frequently affirmed summary judgment on the issue of substantial similarity." [*46] *Shaw v. Lindheim, 919 F.2d 1353, 1355 (9th Cir. 1990)*.

As discussed below, the Court concludes that no reasonable jury could find Earl and Karma! to be substantially similar.

I. Evidence Considered

The Court engaged in detailed review of the works at issue. Specifically, the Court read the Karma! screenplay by Mark Gable (Docket No. 21-6), watched the pilot episode for Earl, and watched all 24 episodes of the first season of Earl. The Court also watched 5 select episodes of the second season of Earl. Notably, Plaintiff (and Plaintiff's expert) only compared Karma! with episodes from the first and second seasons of Earl when analyzing the alleged similarities between the works. Thus, the Court focused on those episodes of Earl which Plaintiff contends demonstrate a substantial similarity with Karma! See *Sony Pictures Entertainment, Inc. v. Fireworks Entertainment Group, Inc., 156 F. Supp. 2d 1148, 1157 (C.D. Cal. 2001)* ("It is the copyright plaintiff's burden to identify the elements for [the extrinsic test] comparison.") The Court also considered a chart that Plaintiff created, which presents a side-by-side comparison of those portions of the two works that Plaintiff contends are similar. [*47] (Gable Decl., Exh. G [hereinafter "Plaintiff's Comparison Chart"]; Suppl. Gable Decl., Exh. A.)

a. Expert Testimony

In addition to the works themselves, Plaintiff relies on the expert report of David Nimmer ("Nimmer") to establish substantial similarity. Nimmer's expert report contains approximately 20 paragraphs of comparisons between the objective elements of Karma! and Earl. The report also contains a lengthy legal analysis of Ninth Circuit case law, and concludes by responding to the expert report offered by Defendants' expert, Jeff Rovin. Nimmer ultimately opines that: "Based on my review of Ninth Circuit case law, the facts at bar present a situation in which substantial similarity presents a triable issue of fact - a reasonable factfinder could conclude, based on all the circumstances, that defendants actionably copied from plaintiff's screenplay." (Nimmer Decl. P 27.)

Defendants object to the testimony offered by Nimmer on several grounds. First, Defendants argue that Nimmer, while certainly an expert in the field of copyright law, is not qualified to offer a literary analysis in this case. Further, Defendants object that Nimmer's report contains inadmissible legal conclusions, [*48] and challenge Nimmer's methodology.

The Court agrees that Nimmer's expert report is not admissible. Pursuant to *Federal Rule of Evidence 702*, a witness may offer an expert opinion only if he or she draws on some special "knowledge, skill, experience, training or education to formulate that opinion." *Fed. R. Evid. 702*. However, "the opinion must be an expert opinion (that is, an *opinion informed by the witness' expertise*) rather than simply an opinion broached by a purported expert." *Jones v. Lincoln Elec. Co., 188 F.3d 709, 723 (7th Cir. 1999)* (citing to *United States v. Benson, 941 F.2d 598, 604 (7th Cir. 1991))* (emphasis added). Thus, to determine whether a proposed expert is qualified, the court must examine whether the witness's qualifying training, experience, or specialized knowledge is sufficiently related to the subject matter upon which the witness offers an opinion. See *United States v. Chang, 207 F.3d 1169, 1172 (9th Cir. 2000)* ("To qualify as an expert, a witness must have knowledge, skill, experience, training or education, relevant to such evidence or fact in issue."); *In re Canvas Specialty Inc., 261 B.R. 12, 19 (C.D. Cal. 2001)* ("It is not enough that the proposed expert [*49] have expertise in an area of knowledge. The expertise must be relevant to the determination of the facts in issue."); *Jones, 188 F.3d at 723* ("Whether a witness is qualified as an expert can only be determined by comparing the area in which the witness has superior knowledge, skill, experience, or education with the subject matter of the witness's testimony."). The proponent of the expert bears the burden of demonstrating that the expert is qualified. *United States v. 87.98 Acres of Land More or Less in the County of Merced, 530 F.3d 899, 904-05 (9th Cir. 2008)*; *Baker v. Urban Outfitters, Inc., 254 F. Supp. 2d 346, 353 (S.D.N.Y 2003)*.

Here, Plaintiff has not demonstrated that Nimmer is qualified to render an expert opinion on the issue of substantial similarity between two literary works. Nimmer's experience, training, and education establish that Nimmer undoubtedly is an expert in the field of copyright law. He is a graduate of Yale Law School, and a partner at the Los Angeles-based firm of Irell & Manella. He specializes in and teaches copyright law and is the current author of the preeminent copyright treatise *Nimmer on Copyright*, which is often cited by appellate courts, including [*50] the Supreme Court. Over the past three decades, Nimmer has published numerous books and dozens of articles on copyright law, spoken at many copyright law conferences, and taught seminars to federal judges on the issue of substantial similarity in copyright law. Given this extensive background, there can be no question that Nimmer is well-qualified to perform a *legal analysis* regarding copyright claims. However, as discussed below, an expert cannot offer his legal opinion as to whether a triable issue of fact exists regarding copyright infringement; such an analysis is the exclusive province of the Court.

Instead, the relevant issue on summary judgment, and indeed the subject matter upon which Nimmer seeks to opine, is whether there is substantial similarity in the objective elements of theme, plot, dialogue, characters, sequence of events, mood, pace, and setting between Karma! and Earl. In short, Nimmer was tasked with performing a literary analysis of two fiction works. However, Nimmer offers little explanation as to how his legal expertise qualifies him to compare a screenplay and a television series on the eight criteria mentioned. Notably absent from Nimmer's report and declarations [*51] is any indication that Nimmer has experience, knowledge, training, or education in the literary field - for example, there is no evidence that Nimmer has ever worked as a film critic, a publisher, an English professor, an editor or director, that Nimmer writes fiction works, or even that Nimmer is an avid movie buff or television-watcher. While the Court recognizes that the task of comparing two fiction works is not highly technical, and indeed requires no specific training, to offer an expert *literary analysis* there must be some indication that Nimmer has, in one capacity or another, watched, read, written, compared and/or analyzed literary works. [14] See e.g., *Stewart v. Wachowski, 574 F. Supp. 2d 1074, 1106 n.130 (C.D. Cal. 2005)* (expert was an English professor who had previously testified in several matters regarding substantial similarity); *West v. Perry, No. 2:07CV200, 2009 U.S. Dist. LEXIS 63422, 2009 WL 2225569, at *5 (E.D. Tex. 2009)* (among other qualifications, expert had a film degree, was an accomplished screenwriter, and had worked as a screen credit arbitrator for the Writer's Guild of America); *A Slice of Pie Productions, LLC v. Wayans Bros. Entertainment, 487 F. Supp. 2d 33, 41 (D. Conn. 2007)* [*52] (expert had extensive experience teaching, evaluating, studying, and writing about screen writing). No such evidence exists here.

14 The Court is using the term "literary works" loosely to relate to the type of works at issue in this case - a screen play and a television series - and their analogs such as motion pictures and books. In other words, the Court uses the term to refer to those works in which substantial similarity analysis would be based on the elements of theme, plot, characters, sequence of events, dialogue, mood, setting, and pace. The Court recognizes that, under the Copyright Act, a movie or television series would fall into the category of an audiovisual work, whereas a book or screenplay would be categorized as a literary work. *17 U.S.C. § 102(a)(1), (a)(6).*

Further, Nimmer's prior experience as an expert witness or consultant, with perhaps one or two exceptions, is not relevant to the literary analysis offered in this case. Nimmer lists several cases in which he previously offered expert testimony regarding the substantial similarity of works such as technical drawings, architectural plans, bingo cards, instructions for the use of pesticides, and computer software. [*53] (Supp. Nimmer Decl. PP 7-10.) Nimmer does not explain the specific analysis he performed; however, his assignments in those cases did not involve fiction works such as television shows, plays, movies, or books. Thus, this prior experience does not inform the literary analysis offered here. [15] There are two instances in which Nimmer may have performed a similar analysis as that offered here, although given the vague descriptions of these assignments, it is difficult to know for certain. First, Nimmer declares that he assisted a publisher in overturning an injunction in a copyright case involving a comparison between Margaret Mitchell's *Gone with the Wind* and Alice Randall's *The Wind Done Gone.* But Nimmer fails to describe the issue that he was asked to analyze or the opinion he ultimately rendered in that case. [16] (Id. P 11.) Nimmer also notes one assignment, in Time Warner Entertainment Co. v. Continental Casualty Co., Case No. 02-01885 R (C.D. Cal.), where he was asked to compare a revised screenplay with the motion picture *Contact* and concluded that the unlicensed, protectable expression from the screenplay that was used in the film gave rise to a valid copyright claim. (Id. P 6.) [*54] While this prior experience appears relevant, the fact that Nimmer testified as an expert once before in a case involving literary works is not a sufficient basis, without more, to accept his testimony here. [17]

15 Nimmer argues in his report that he has "long championed the view that the same tools to address substantial similarity in traditional domains, such as plays, should be deployed to perform the comparable substantial similarity analysis in the newer domain of computer software." (Supp. Nimmer Decl. P 10 [citing to 4 *Nimmer on Copyright § 13.03[F]*].) Nimmer may very well be correct that a general approach in which the court first excludes non-protectable elements (such as stock elements or elements dictated by function or genre) and then analyzes the remaining objective elements of a work is a useful framework for both traditional works as well as computer software. However, this does not change the fact that the specific eight criteria used to analyze the objective elements of traditional works, like plays - plot, theme, characters, etc. - are simply not applicable to works such as computer software or technical drawings. Thus, to the extent that Nimmer is suggesting that a [*55] witness qualified to compare the objective components of two computer software programs for substantial similarity would, by virtue of that expertise, be qualified to analyze the similarities between a novel and film, the Court flatly disagrees.

16 The Court is familiar with the Eleventh Circuit's opinion overturning the injunction in *Suntrust Bank v. Houghton Mifflin Co., 268 F.3d 1257 (11th Cir. 2001),* and notes that there were critical copyright issues in Suntrust Bank that are not relevant to the present case - for example, whether the allegedly infringing work was entitled to fair use protection as a parody.

17 Having reviewed the docket in Time Warner Entertainment Co., of which the Court takes judicial notice, it appears that the opposing party did not object to Nimmer's qualifications as an expert; thus, the issue of Nimmer's literary expertise (or lack thereof) was not addressed.

In sum, Nimmer's specialized knowledge of copyright law and his legal expertise does not qualify him as a literary expert. See, e.g., *Gen. Battery Corp. v. Gould, Inc., 545 F. Supp. 731, 750 n.24, 759 n.30 (D. Delaware 1982)* (patent lawyer, although knowledgeable about the patent office procedure, was [*56] not qualified to give an expert opinion on infringement where he was not skilled in the relevant art of the patented products); *United States v. Chang, 207 F.3d 1169, 1172-73 (9th Cir. 2000)* (witness who was "extremely qualified" in international finance was not qualified to render an opinion on the authenticity of a securities certificate where he had no training in identification of counterfeit securities); *In re Canvas Specialty, Inc., 261 B.R. 12, (C.D. Cal. 2001)* (Witness not qualified where witness was an architect but had not demonstrated how his training as an architect gave him the necessary expertise to determine whether metal cabanas met contract requirements or had structural defects). As such, Nimmer's opinions as to the points of similarity between Karma! and Earl are not admissible.

Finally, the remaining portion of Nimmer's report, in which Nimmer instructs the Court as to Ninth Circuit law and concludes that "a triable issue of fact exists" is not admissible. (Nimmer Decl. PP 26-38.) It is well established that, "an expert may not state his or her opinion as to legal standards, nor may he or she state legal conclusions drawn by applying the law to the facts." 33A Fed. [*57] Proc., L. Ed. § 80:283 (West 2009); *Aguilar v. Int'l Longshoremen's Union Local No. 10, 966 F.2d 443, 447 (9th Cir. 1992)*; *Nationwide Transport Finance v. Cass Information Systems, Inc., 523 F.3d 1051, 1059-60 (9th Cir. 2008)*; *McHugh v. United Serv. Auto. Ass'n, 164 F.3d 451, 454 (9th Cir. 1999)*; see also, Joseph M. McLaughlin, et al., *Weinstein's Federal Evidence § 702.03[3]* (2d ed. 2009). Such opinions invade on the province of the judge. See *Burkhart v. Washington Metro. Area Transit Auth., 112 F.3d 1207, 1213, 324 U.S. App. D.C. 241 (D.C. Cir. 1997)*. Here, portions of Nimmer's report read much like a third legal brief. Nimmer analyzes five Ninth Circuit copyright cases, "weigh[s] [the two works] against [his] comprehensive review of Ninth Circuit jurisprudence," and concludes that a triable issue of fact exists. (Nimmer Decl. P 38.) This opinion constitutes a legal conclusion and is not admissible.

For these reasons, the Court excludes Nimmer's expert report. Nonetheless, even had the Court considered the report, it would not have altered the substantial similarity analysis below. To the extent that Nimmer's report offers objective points of comparison between the two works, most (if not all) of those [*58] comparisons were also noted in Plaintiff's Comparison Chart, which the Court has considered. Further, although expert testimony comparing literary works is generally accepted in the Ninth Circuit, the Court finds that such testimony is only marginally helpful in cases such as this, where the works are targeted at a general audience and deal with subject matter readily understandable by ordinary persons. [18] Thus, the Court's analysis is largely based on the Court's own extensive review of the works. Finally, contrary to Plaintiff's arguments otherwise, [19] the mere existence of dueling expert reports does not necessarily create a triable issue of fact. Numerous cases have found in favor of defendants on the issue of substantial similarity despite the existence of expert testimony offered by plaintiffs. See, e.g., *Rice, 330 F.3d at 1180* (affirming summary judgment for defendants where the parties' each submitted expert reports); *Olson v. Nat'l Broadcasting Co., Inc., 855 F.2d 1446, 1451, 1453 (9th Cir. 1988)* (affirming the district court's grant of judgment notwithstanding the verdict after Plaintiff offered expert testimony at trial that sought to demonstrate similarity between the works); [*59] *Brown Bag Software v. Symantec Corp., 960 F.2d 1465 (9th Cir. 1992)* (affirming summary judgment for defendants where plaintiff presented expert testimony on the issue of substantial similarity).

18 Expert testimony is far less critical in a case like this than it is in a case where specialized knowledge is required to dissect the objective components of the copyrighted work. See, e.g., *Brown Bag Software, 960 F.2d at 1473-74* (relying on expert testimony to identify the objective points of comparison among different computer software programs); *Swirsky v. Carey, 376 F.3d 841, 847-48 (9th Cir. 2004)* (relying on expert testimony comparing the objective elements - pitch, melodies, baselines, tempo, chords, structure, and harmonic rhythm - of musical works); *Chiate v. Morris, Case No. 90-55428, 1992 U.S. App. LEXIS 20330, 1992 WL 197591, *5 (9th Cir., Aug. 17, 1992)* (finding that expert testimony by a musicologist is crucial to proving objective similarity of songs); see also DOWD, COPYRIGHT LITIGATION HANDBOOK § 15:27 (2d ed. 2009) (noting that expert testimony is often helpful in cases involving computer programs and functional objects, but will "seldom be necessary" to determine substantial similarity between literary [*60] works). Indeed, several other courts have cast doubt on whether expert testimony regarding substantial similarity is ever helpful in a case involving the comparison of two literary works. See e.g., *Nicolas v. Universal Pictures Corp., 45 F.2d 119, 123 (2d. Cir. 1930)*; *Stromback v. New Line Cinema, 384 F.3d 283, 295 (6th Cir. 2004)*; *Kindergartners Count Inc. v. Demoulin, 249 F. Supp. 2d 1214, 1232 (D. Kan. 2003)*. As stated above, the Ninth Circuit generally takes a broader view, and often finds that expert testimony is appropriate regarding the objective substantial similarity of literary works. See *Olson, 855 F.2d at 1449*; *Sid & Marty Krofft Television Productions, Inc., 562 F.2d 1157, 1164 (9th Cir. 1977)*. Nonetheless, several Ninth Circuit cases have recognized the limitations of expert testimony in this area. See *Rice v. Fox Broadcasting Co., 330 F.3d 1170, 1179 (9th Cir. 2003)* (upholding the district court's decision to disregard the parties' expert reports where the court engaged in an extensive analysis of the alleged similarities in expressive elements of the works and "neither expert opinion [was] very relevant to the conclusions drawn by the court"); *Olson, 855 F. 2d at 1450-51* [*61] (holding that the district court's decision to discount expert testimony was appropriate where the expert deemphasized dissimilarities between the works and compared *scenes a faire*); *Shaw v. Lindheim, 919 F.2d 1353, 1357 (9th Cir. 1990)* (viewing the expert report with caution where it focused on random similarities in the works).

19 At the summary judgment hearing, Plaintiff's counsel argued that *Swirsky v. Carey, 376 F.3d 841 (9th Cir. 2004)*, held that if experts from both parties disagree on the issue of substantial similarity, the case should be submitted to the jury. This is a misreading of Swirsky. In Swirsky, the Ninth Circuit was discussing the general summary judgment standard, not the testimony of experts, when it noted that if plaintiff "presented indicia of a sufficient disagreement concerning the substantial similarity of [the] two works, then the case must be submitted to a trier of fact." *Id. at 844*. Swirsky was quoting *Brown Bag Software v. Symantec Corp., 960 F.2d 1465, 1472 (9th Cir. 1992)*, which in turn quoted from *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 251-52, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986)*, a seminal Supreme Court case setting out the standard for ruling on summary judgment motions [*62]

> generally. Thus, when read in context, the portion of Swirsky quoted above simply restates the standard for evaluating a summary judgment motion - that is, if the evidence presented indicates that reasonable minds could differ as to which party should prevail, the case must go to the jury. However, where no reasonable jury could conclude that the two works are substantially similar, summary judgment on the issue of substantial similarity is appropriate, notwithstanding dueling expert reports. See *Flynn v. Surnow, No. CV 02-9058-JFW (PLAx), 2003 U.S. Dist. LEXIS 26973, 2003 WL 23411877, *4 (C.D. Cal., Dec. 9, 2003)* (citing to *Narell v. Freeman, 872 F.2d 907, 910 (9th Cir. 1989)*.

Defendants also submitted an expert report in this case. Defendants' expert, Jeff Rovin, has spent his entire adult life as a professional writer. (Rovin Decl. P 3, pg. 5, Appx. 4.) He has authored 124 books, both fiction and non-fiction, including several books analyzing films and television series - e.g., *The Films of Charleston Heston, The Fabulous Fantasy Films, The Great Television Series.* (Id., Appx. 4.) Among other relevant experience, Rovin was a writer on two television series and a consultant on three others, provided DVD commentary [*63] on three recent films, and has written monthly film columns in several magazines for years. (Id.) His magazine publications include *Fascinating Facts from the Bible* (1995-2001) and *The Weekly Worlds News* (2005-2007) which regularly published stories about angels, fate, and other aspects of religious phenomenon. Rovin's expert report establishes that he has extensive knowledge of films and books related to karma, fate, and related topics. Based on this experience, the Court concludes that Rovin has significant knowledge and experience in the literary field to render an opinion on whether the expressive elements of Karma! and Earl are substantially similar. Indeed, Plaintiff has not challenged Rovin's qualifications as an expert.

While Rovin's expert report is admissible, the Court did not rely on it to conclude that no reasonable jury could find the works to be substantially similar. Many of the dissimilarities between Karma! and Earl that Rovin addresses are apparent from a review of the works themselves, and do not require a trained literary eye. Thus, as stated above, the Court relied primarily on its own review of the works in coming to the conclusion that no triable issue of fact [*64] exists as to substantial similarity. Furthermore, while expert testimony can be useful when examining whether the alleged similarities between two works constitute *scenes-a-faire*, see GOLDSTEIN ON COPYRIGHT § 16.4.2 (3d ed. 2006), the Court notes that comparisons to prior art are only helpful to the extent that they are genre-specific. That is, an unprotectable *scenes-a-faire* is an element of a story that is standard in a particular genre or that derives from the basic plot idea - e.g., a saloon shoot-out might be a standard element in an action film set in the old west. *Rice, 330 F.3d at 1175*. Here, it is not helpful to simply point out that certain past works also included a particular element; rather, to demonstrate that the element is not protectable, it must be shown that such an element is standard or indispensable in literary works centered around the themes of karma or redemption. See *Fleener v. Trinity Broadcasting Co., 203 F. Supp. 2d 1142, 1150-51 (C.D. Cal. 2001)*. Thus, to the extent that Rovin's comparisons to prior art are not genre-or-theme-specific, the Court has discounted those instances in its analysis.

With those considerations in mind, the Court turns to the objective [*65] analysis of Karma! and Earl.

ii. Objective Analysis

a. Theme

At an abstract level, both Karma! and Earl involve the central themes of karma and redemption. The ideas of righting past wrongs and good things happening to good people are general storylines that have been around for thousands of years. These ideas, standing alone, are not protectable. See *Olson v. Nat'l Broadcasting Co., 855 F.2d 1446, 1450 (9th Cir. 1988)* (the general idea of a group action-adventure series in which Vietnam veterans do good deeds and are portrayed in a positive light is not protectable); *Berkic v. Crichton, 761 F.2d 1289, 1293 (9th Cir. 1985)* (finding that the basic plot idea of a young professional who courageously investigates and exposes a criminal organization that kills persons to sell their vital organs is not protectable). [20]

> 20 While the Court has rejected the report of Plaintiff's expert, David Nimmer, the Court notes in passing that Nimmer agreed that the theme of turning bad karma into good karma and the concept of making amends were not protectable. (Supp. Rubin Decl., Exh. 1 [Nimmer Depo. at 97:24-98:21, 120:5-7].)

Moreover, the manner in which the themes of karma and redemption are expressed in [*66] each work is different. In Plaintiff's screenplay, the notion of karma has an obvious religious underpinning. At the beginning of the screenplay, Frankie's brother, who is a priest, tells Frankie: "you look like you've been out in the desert for forty days and forty nights! And the devils [sic] got the best of you." (Rubin Decl., Exh. D, at 85.) Frankie is then visited by an angel, who meets him at the Cemetery of the Blessed Virgin. The angel has divine powers; he stops the rain from falling and brings dying flowers back to life. The angel also can fly, and transforms himself into other beings, such as the blind homeless person and a white dove. The angel tells Frankie that he must take certain steps to save the soul of his unborn son, and when Frankie attempts to bargain with the angel, the angel tells him "it's not up to me anyway." (Id. at 91.) Later in the screenplay, Frankie asks the angel why he has chosen to guide Frankie, and the angel responds, "God believes he can resurrect all of his sons who have fallen." (Id. at 125.) As the screenplay progresses, Frankie turns his life around and begins to have faith in the power of God. For example, at the pivotal moment in the screenplay [*67] where Frankie goes undercover and successfully foils a major drug deal, his former Lieutenant tells Frankie that he did "real good." Frankie responds, "Yea, by the good grace of God." (Id. at 179.) (emphasis in the original). When the Lieutenant incredulously respond, ". . . God? As I recall, you never really believed in that sort of thing," Frankie responds, "Yea, well you could say I was baptized in that river." (Id.) (emphasis in the original). At the end of the screenplay, when Frankie dies, he turns into an angel. Frankie asks Angel Man about his wings, and Angel Man tells him, "You fell from grace, but you've earned them back." (Id. at 186.) The screenplay concludes with Frankie, now an angel, watching over Tori Ann. (Id. at 187-88).

In sum, the religious overtone in Karma! is seen throughout the screenplay. Frankie's fall is "a fall from grace," and it is through his good works and his eventual acceptance of God that Frankie is redeemed. Frankie lives on after death, as an angel who watches over those he loves.

In Earl, karma is not a religious concept, nor does Earl go through any type of faith-based transformation. Earl learns about Karma from Carson Daly, a Hollywood celebrity, [*68] during a televised interview. Daly is not a celestial being, he does not direct Earl to take any actions; indeed, he is not even speaking specifically to Earl. Daly never again appears in Earl, and does not "guide" or watch over Earl. Instead, Earl decides on his own to adopt Daly's karmic philosophy. In Earl, like in Karma!, the notion of karma is personified - Earl talks to "karma" in several episodes as though he were speaking to a person and implores karma to help him out of certain situations. However, the force of karma is not embodied in a celestial being, nor does it have a religious undertone. Unlike in Karma!, Earl is not saved "by the grace of God," he does not adopt any religious convictions, and he does not experience a religious rebirth.

Thus, while both works share similar unprotectable themes, the expression of those themes is markedly different.

b. Plot

The story of redemption naturally begins with someone who needs to be redeemed, and ends with that same person doing good acts and making up for past wrongs. In this manner, both Earl and Frankie can quite easily be compared to Scrooge in Charles Dickens's A Christmas Carol. All three characters start as bad people, have [*69] a realization that their actions affect their future, and subsequently decide to lead better lives by making up for past wrongs. Again, this basic plot idea is not copyrightable. *Berkic, 761 F.2d at 1293*.

Beyond these general plot ideas, and the fact that in both works the main character wins the lottery (discussed below), there is little in common between Earl and Karma! Earl is a small town low-life who steals, lies and bullies people on a regular basis. Although Frankie also steals once he is out of prison, Frankie is not just a low-life, but a disgraced detective who took bribes from criminals and associates with dangerous drug dealers.

Further, the incarnation of each character's bad karma is markedly different. In Earl, karma retaliates for Earl's bad acts in random ways. For instance, when Earl undeservedly wins the lottery, he is hit by a car. Earl is motivated to do good deeds primarily to avoid karma's retribution against him. In Karma!, on the other hand, Angel Man tells Frankie that his bad karma will affect the life of his unborn son. Thus, Frankie is motivated to improve his own life, as well of the lives of others, including his son.

Each character has a vastly different [*70] karmic realization. Earl begins to believe in karma when, upon having a good thing happen to him, winning the lottery, he is immediately hit by a car. The accident not only leaves Earl in the hospital with nearly his whole body in a cast, but also makes Earl lose the lottery ticket. Upon hearing Carson Daly's speech about karma, Earl decides that he is being punished for all of his bad deeds and decides to right his life. In contrast, Frankie's karmic realization revolves completely around Angel Man. Angel Man shows Frankie an image of Frankie's unborn son, and convinces Frankie that he must amend his past wrongs and straighten out his life in order to save the soul of his unborn child. As such, Frankie's revelation is starkly different from that of Earl.

After these markedly different realizations, both characters turn to making amends for their past deeds. Earl creates a list of everything he has ever done wrong, and begins to work at crossing each and every mistake off the list. Just by starting, Earl's lottery ticket is carried back to him by the wind. Thus, Earl becomes convinced of karma's power. In each episode, Earl aims to amend a specific past wrong with the goal of crossing [*71] it off his list. In contrast, Frankie never creates any list of the bad things he done. [21] Instead, Frankie seemingly amends his wrongs as opportunities arise -for example, when Frankie sees a man drop his wallet, he returns it. Frankie's efforts to turn his life around culminate in his valiant attempt to clear his name as a police officer by going undercover and busting a large drug deal. When Frankie is successful, the newspaper runs a front-page story heralding Frankie's transformation with the headline: "X-bad cop, makes good." (Rubin Decl., Exh. D, pg. 183.) There is no counterpart to this plot point in Earl. Instead, Earl's journey toward redemption is seemingly never-ending; although he makes up for a specific wrong in each episode, he often makes mistakes and has to add new items to the list.

21 Plaintiff argues that, like Earl, Frankie does have a list. Plaintiff refers to the "list" of the three things Angel Man told Frankie to do - (1) make amends for past wrongs; (2) clean up your life; and (3) use the money you come into wisely. This is not a point of similarity. First, Angel Man does not give Frankie a physical list. In Earl, the physical list - i.e. the piece of paper [*72] that Earl wrote his misdeeds on - is central to the show. Other characters refer to it, Earl is constantly taking the list out of his pocket to add or delete items, and it is the barometer of how well Earl is doing in his life. Thus, the fact that there is no physical list in Karma! is an important difference. Further, even if Angel Man's three-part agenda could be characterized as a "list", it is not a list of wrongs for which Frankie needs to amend. Indeed, only one item on Angel Man's "list" relates to righting past wrongs, and it does not delineate the specific wrongs Frankie must correct.

Plaintiff stresses that both works have the main character win a lottery ticket, and both characters use the lottery winnings to remedy past misdeeds. However, the lottery winnings are different amounts of money and play different roles in each work. Most notably, Earl's winning the lottery *leads* to Earl's karmic realization. In winning the lottery, Earl enthusiastically celebrates his winnings and gets hit by a car. When he loses the lottery ticket in the accident, this triggers Earl's realization that bad things happen to him because he is a bad person. In short, it is the *loss of the lottery* [*73] *ticket* that sets Earl's redemption in motion. Once Earl begins do good deeds, the lottery ticket immediately returns to him and convinces Earl of karma's power. Further, Earl's lottery winnings are only $100,000, not enough to change Earl's life significantly, but enough to enable Earl to spend his days crossing wrongs of his list, instead of getting a job.

In Karma!, Frankie has his karmic realization before he comes into any money. In fact, it is Angel Man's *promise of money in the future* that motivates Frankie to do good deeds. Frankie initially wins $300 from a scratcher and uses that money to pay the blind man, buy candy for teenagers, and pay back-owed rent. Even after the initial win, however, Frankie asks Angel Man if he is going to come into wealth. Thus, Frankie is always looking forward to the reward of money, which entices him to stay on the straight and narrow. Unlike Earl, Frankie does not win any substantial amount of money until the end of the screenplay, when he wins two million dollars. Further, while Earl uses his lottery winnings to redeem his own past wrongs, Frankie uses the bulk of his winnings - a million dollars - to rebuild an orphanage that has no relationship [*74] to Frankie's past misdeeds.

Beyond the karmic arc and the lottery tickets, Plaintiff lists roughly a dozen other plot points that Plaintiff contends make the works substantially similar.

Much of this list is made up of random similarities that have no qualitative significance to the works - for example, Plaintiff argues that in both works there is an "old oriental bum," and that in both works, the main character expresses appreciation for his brother. The Ninth Circuit has repeatedly held that "such lists of similarities . . . are inherently subjective and unreliable," and a court should be "particularly cautious where, as here, the list emphasizes random similarities scattered throughout the works." *Litchfield v. Spielberg, 736 F.2d 1352, 1356 (9th Cir. 1984)* (summary judgment granted where there was no substantial similarity in the sequence of events, mood, dialogue or characters, and plot similarities existed "only at the general level for which plaintiff cannot claim copyright protection"); see also, *Olson, 855 F.2d at 1450 n.3*; *Kouf, 16 F.3d at 1046*; *Shaw, 919 F.2d at 1362*. These minor elements, scattered throughout the works, are not probative of similarity.

Other instances [*75] that Plaintiff relies on simply are not similar. For example, Plaintiff notes that in Karma!, Tori Ann wants to have sex with Frankie, but he tells her she will regret it, while in Earl, Earl and Joy have sex and Earl states that it was a big mistake. In the abstract, these events sound similar, but in context, the differences between these two scenes are overwhelming. In Karma!, Frankie tells Tori Ann that they should not have sex because Tori Ann is high on drugs. Up until that point in the story, Frankie and Tori Ann have had a completely plutonic relationship. Frankie wants to sleep with Tori Ann, but not when Tori Ann is out of control and not thinking clearly. Thus, Frankie resists her in that moment, making it all the more special when the two make love later in the screenplay. In Earl, Earl and Joy were previously married. After their divorce, Earl gives into temptation and has sex with Joy while helping her plan her wedding to Crabman. Earl feels guilty for betraying his friend Crabman, and confesses to him, telling Crabman that it was a big mistake. Crabman forgives Earl and Joy and goes through with the wedding. These storylines are not similar: In Karma!, Frankie does the [*76] right thing, resists temptation, and later falls in deeply in love with Tori Ann, whereas in Earl, Earl does the wrong thing, gives into temptation and betrays a friend, later having to apologize.

As another example, Plaintiff points out that both Earl and Frankie return a man's wallet as an act of good karma. But the idea of a low-life thief stealing a wallet is hardly protectable, and the concrete expression of making amends for the theft is different in each work. Earl finds the specific person from whom he stole the wallet, whereas when Frankie sees that he has the opportunity to steal another man's wallet, he decides to do the right thing and return the wallet to the owner. Thus, Earl is making amends against the original person he hurt, whereas Frankie is simply deciding not to steal again.

Finally, Plaintiff's list focuses on several unprotectable stock elements or *scenes-a-faire* that are scattered throughout the works. For example, Plaintiff notes that both Earl and Frankie spend time in prison, and after turning their lives around, both characters repay money to those from whom they stole, and at some point, both men get a job. These storylines are driven by the basic plot idea [*77] of turning one's life around. The concept of a bad person spending time in prison, and then trying to clean up their act by making restitution and getting a job are unprotectable *scenes-a-faire* in a story about redemption. See, e.g., *Walker v. Time Life Films, Inc., 784 F.2d 44, 50 (2d Cir. 1986)* (In two works depicting the experience of policemen in New York's crime-laden 41st Precinct, scenes of a policeman murdered at close range, cockfights, drunks, stripped cars, prostitute, rats, unsuccessful foot chases of fleeing criminals, and demoralized officers were stock scenes commonly linked to the genre of the works); *Berkic, 761 F.2d at 1293* (holding that no protection may be afforded to "situations and incidents which flow naturally from a basic plot premise"). Similarly, Plaintiff points out that in both works, a piece of paper floats back to the main character starting the idea of karma. In Karma!, Frankie throws a picture of an angel into the wind, and it mysteriously comes back to him. Similarly, the winning lottery ticket returns to Earl carried by the wind. However, the visual effect of a piece of paper magically floating back to someone is not a protectable expression. The [*78] effect is commonly used in works that involve themes of serendipity and fate. [22]

22 These two scenes are also contextually dissimilar. In Karma!, Frankie is trying to get rid of the picture of the angel. He first tries to burn it, and then throws it toward a river, but the wind immediately carries it back to him. This event starts Frankie's karmic realization. In Earl, Earl loses a $100,000 lottery ticket - something he desperately would want to hold on to, not get rid of - when he is struck by a car. It is not until several scenes later, when Earl has already had his

> karmic epiphany and has started his journey toward redemption, that the wind carries the ticket back to him.

Although there are some general similarities between the works, the similarities pale in comparison to the significant differences between the works. In this way, the present case is similar to *Funky Films, Inc. v. Time Warner Cable, 462 F.3d 1072 (9th Cir. 2006)*. In Funky Films, the plaintiff alleged that defendants' television series infringed upon plaintiff's screenplay. Both works depicted family-run funeral homes where the father died leaving the family's two sons to run the funeral home. *Id. at 1077*. Both works [*79] included the return of the prodigal son, a competitive bid by a rival business that does not succeed, and one son changing his religious affiliation to get business. Id. The Ninth Circuit found that "[a]t first blush, these apparent similarities in plot appear significant; however, an actual reading of the two works reveals greater, more significant differences and few real similarities at the levels of plot, characters, themes, mood pace, dialogue, or sequence of events." *Id. at 1078*. The court noted that events in both works that appeared similar were, in context, qualitatively different - e.g., in plaintiff's work, the father's death sparked a series of murders, whereas the father's death in defendants' work did not - and that while both works explored the same themes, they did so in very different ways. *Id. at 1078-80*. The Ninth Circuit concluded that:

> At a very high level of generality, both works share certain plot similarities: the family-run funeral home, the father's death, and the return of the 'prodigal son,' who assists his brother in maintaining the family business. But general plot ideas are not protected by copyright law; they remain forever the common property of artistic [*80] mankind. Beyond that, the stories do not share any detailed sequence of events.

Id. at 1081 (internal citations and quotation marks omitted). Thus, the Court affirmed summary judgment in favor of defendants on the issue of substantial similarity. *Id. at 1081*; see also *Walker v. Time Life Films, Inc., 784 F.2d 44, 49-50 (2d Cir. 1986)* (finding that "at the most general level, the movie and the book tell the same story" - that of policemen battling the hostile environment of New York's 41st Precinct - however, "differences in plot and structure far outweigh this general likeness.").

As in Funky Films, both Karma! and Earl! share the basic plot of a low-life embracing karma, winning the lottery, and straightening out his life. While the overarching theme of each story is similar, the concrete expression of how karma is portrayed, the characters' karmic realizations, the efforts taken to redeem past wrongs, and the end results are wholly dissimilar. Notably, many of the most significant elements of Karma!'s plot do not have any counterpart in Earl - for example, the guiding role of Angel Man, the unborn child who stands to inherit Frankie's karma, the idea of a fallen cop getting back his [*81] integrity and "clearing his name" through undercover police work, the drug dealer antagonist, the love story with Toni Ann and her decision to turn her life around, and most significantly, Frankie's death and subsequent transformation into an angel. Moreover, as discussed below, the sequence of events in the two works bears little resemblance. As such, no reasonable jury could find that the plots of the two works is substantially similar.

Plaintiff nonetheless urges the Court to adopt the analysis in *Metcalf v. Bochco, 294 F.3d 1069 (9th Cir. 2002)*. In Metcalf, the Ninth Circuit held that although individual elements of a work may not be protectable, "[t]he particular sequence in which an author strings a *significant number of unprotectable elements* can itself be a protectable element." *294 F.3d at 1074* (emphasis added). In Metcalf, however, the sequence of unprotectable elements went far beyond the basic plot. The Ninth Circuit found the similarities between the works "striking". *Id. at 1073*. The Ninth Circuit noted:

> [Both works] are set in overburdened county hospitals in inner-city Los Angeles with mostly black staffs. Both deal with issues of poverty, race relations and urban blight. [*82] The works' main characters are both young, good-looking, muscular black surgeons who grew up in the neighborhood where the hospital is located. Both surgeons struggle to choose between the financial benefits of private practice and the emotional rewards of working in the inner city. Both are romantically involved with young professional women when they arrive at

> the hospital, but develop strong attractions to hospital administrators. Both new relationships flourish and culminate in a kiss, but are later strained when the administrator observe a display of physical intimacy between the main character and his original love interest. Both administrators are in their thirties, were once married but are now single, without children and devoted to their careers and to the hospital. In both works, the hospital's bid for reaccreditation is vehemently opposed by a Hispanic politician.

Id, at 1073-74. In sum, the works had "the same setting in the same location and city . . . dealt with identical issues, had similar looking characters in identical professions, facing identical challenges" and had an "identical" sequence of events. *Identity Arts v. Best Buy Enterprise Servs., No., 05-4656 PJH, 2007 U.S. Dist. LEXIS 32060, 2007 WL 1149155, at *27 (N.D. Cal., Apr. 18, 2007)* [*83] (summarizing the facts in Metcalf). The Ninth Circuit concluded that "the similarities proffered by the [plaintiffs] are not protectable when considered individually; they are either too generic or constitute 'scenes a faire,' . . . . [h]owever, the presence of *so many generic similarities and the common patterns in which they arise*" allowed the plaintiff to satisfy the extrinsic test for purposes of summary judgment. *Id. at 1074* (emphasis added).

Metcalf does not apply to the present case. In Metcalf, unlike this case, the "generic similarities" were voluminous, nearly identical, and occurred in the same pattern. Here, in contrast, many of the elements Plaintiff points out are not similar when viewed in context, and those that do bear some commonality - e.g., lottery winnings, prison time, paying off debts - do not occur in the same sequence. Plaintiff has not pointed to any common pattern of unprotected elements in Karma that also appears in Earl in the sort of magnitude contemplated by Metcalf. See *Zella v. Scripps Co., 529 F. Supp. 2d 1124, 1138 (C.D. Cal. 2007)* (noting that "many courts have been reluctant to expand [the concept [*84] of finding copyright protection for a pattern of unprotected elements in literary works] beyond the clear-cut case in Metcalf," and granting summary judgment for defendants where plaintiff "cobbled together" a list of generic elements that did not form a specific pattern); *Flynn v. Surnow, No. CV 02-9058-JFW (PLAx), 2003 U.S. Dist. LEXIS 26973, 2003 WL 23411877, *9 (C.D. Cal., Dec. 9, 2003)* (rejecting a Metcalf argument where the similarities "are randomly scattered throughout the works and have no concrete pattern . . . in common"); *Identity Arts, 2007 U.S. Dist. LEXIS 32060, 2007 WL 1149155, at *28* (declining to apply Metcalf where the works shared only a few "striking similarities" and, broadly speaking, a similar sequence of events; "the cumulative weight" of the alleged similarities paled in comparison to that in Metcalf). [23]

> 23 Metcalf is also distinguishable because in Metcalf the defendants conceded access to plaintiffs' work; thus, the inverse ratio rule applied. *294 F.3d at 1075*. The Ninth Circuit held that this concession "strengthened considerably" plaintiffs' case. Id. In *Rice v. Fox Broadcasting Co., 330 F.3d 1170, 1179 (9th Cir. 2003)*, the Ninth Circuit explicitly declined to apply Metcalf to a case in which no concession of [*85] access was made. The court held: "[H]ere we are not presented with the same pattern of generic similarities as in Metcalf. And even more important, our decision in Metcalf was based on a form of inverse ratio rule analysis: the plaintiff's case was 'strengthened considerably by [defendants'] concession of access to their works'. . . . Here, there is no such concession of access as most of [plaintiff's] claims are based purely on speculation and inference." *Id. at 1179* (internal citations omitted). As in Rice, here, there is no concession of access and the inverse ratio rule does not apply; thus, for this reason as well, Metcalf is not applicable.

c. Sequence of Events

Beyond the fact that both works contain a karmic realization, followed by the main character making amends for previous bad acts, the sequence of events in Karma! and Earl are considerably different. Karma! starts with Frankie's arrest and imprisonment, and proceeds, with guidance of Angel Man, to Frankie's redemption, his winning of the lottery, the clearing of his name, and his eventual death. Earl, in contrast, wins the lottery before his karmic realization. After winning, Earl gets hit by a car and loses the lottery [*86] ticket, only to have it come back to him once he begins amending his past wrongs. Subsequently, each episode depicts Earl working through items on his list.

For the most part, Karma! proceeds chronologically. Frankie has one flashback when he wins the $300 scratcher ticket in which he sees Angel Man saying "use it wisely," and one flash-forward when Angel Man shows Frankie the future image of his unborn son. In contrast, Earl uses frequent flashbacks to depict the points in time when Earl committed the initial wrong.

As such, the Court concludes that the sequences of events are not similar.

d. Characters

Both Karma! and Earl have leading male characters with flawed moral characters. There are some similarities between Earl and Frankie in that both start out as generally bad people and make attempts to turn their lives around; however, these character traits derive directly from the general themes of karma and redemption, which are not protectable. Beyond those idea-driven characteristics, Earl and Frankie are not similar.

Frankie is an Italian-American and in his forties. He is a gritty character, filthy and prone to sarcasm. Before his redemption, Frankie is a serious criminal. As a cop, [*87] Frankie took bribes from a young African-American drug dealer. Frankie uses drugs, and knows several habitual drug users and dealers.

Earl, on the other hand, is a white male in his thirties, but is a redneck type of character. Although Earl is unseemly, he is upbeat and friendly. He is generally well-liked by the other characters, and is often portrayed as the leader of his rag-tag crew of his friends. Earl is a petty thief, not a serious criminal. His prior bad acts range from blundering crimes - such as robbing a bank with a squirt gun - to petty mischiefs like making fun of persons with accents and rigging a high school football game. Earl does not use drugs. Unlike Frankie, Earl does not have a religious awakening.

Plaintiff also compares Toni Ann and Joy. Toni Ann is 27 and attractive. She is a habitual drug user and dealer, and a struggling model. Tori Ann is sarcastic and tough, but has a good heart, and eventually turns her life around.

Like Tori Ann, Joy is also in her twenties, is attractive, and has a sarcastic attitude. Other those general character traits, however, the women have little in common. [24] Joy is not a habitual drug user or dealer, nor is she a struggling model. [*88] Joy is a mother of two who lives in a trailer park and runs a nail salon out of her trailer. Unlike Tori Ann, Joy is an irredeemable character. She is manipulative and selfish, and often looks out for herself at the expense of others.

24 These character traits - young, attractive, and sarcastic - are not protectable. Indeed, "young, attractive, and sarcastic" could be used to describe half of the women appearing on television and in films today.

The role Tori Ann and Joy play in the works and their relationships with the main characters are extremely different. In Karma!, Tori Ann and Frankie start off as friends and gradually build a romantic relationship. At the end of the screenplay, the two are deeply in love and are portrayed as soul mates. Tori Ann respects and looks up to Frankie, who is much older than her, and is so inspired by Frankie's decision to turn his life around that she too embarks on her own journey of redemption. Frankie tells Tori Ann that he will share his lottery winnings with her so they can build a better life together. After his death, Frankie spends his days in the afterlife looking over Tori Ann. Angel Man tells Frankie that Tori Ann will soon join them in [*89] heaven.

Joy, on the other hand, is far from Earl's soul mate. Joy and Earl got married while extremely drunk in Las Vegas. At the time they were married, Joy was already pregnant with another man's child, and soon thereafter she cheats on Earl, has a child with Crabman, and leaves Earl. Joy is a nuisance and an antagonist to Earl. Unlike Tori Ann, she is not inspired by Earl's good deeds; instead, she often works against Earl and pokes fun at his list and his efforts at redemption. Moreover, unlike in Karma!, where Frankie wants to share his lottery winnings with Tori Ann, Earl often takes pains to hide his lottery winnings from Joy, who is on a constant quest to steal Earl's money for herself.

Plaintiff's argument that both Tori Ann and Joy know how to use a firearm actually demonstrates the significant difference between the two characters. While it is true that both women use a gun, Tori Ann uses the gun to try and *save Frankie's life* by shooting at Frankie's rival, James Randson. Joy, in contrast, uses the gun to *try and* *kill Earl* so as to inherit his lottery winnings. In sum, the roles that Tori Ann and Joy play in each work and their relationships with the main characters bear [*90] nothing in common.

The supporting cast in each work is not similar. Although both Frankie and Earl have brothers, Frankie's brother, Augustus, is an enlightened priest and a minor character in the screenplay. Earl's brother Randy, in contrast, is a prominent character who serves as Earl's dim-witted sidekick throughout the show. Unlike Augustus, Randy appears to have no religious convictions. Further, Shrimp and Crabman (a.k.a Darnell) are nothing alike. Shrimp is a crude, unintelligent "punk kid" who plays the partner-in-crime to a local drug dealer. In contrast, Crabman is a quiet and gentle friend of Earl's. He is extremely intelligent and possesses a near Zen-like calmness. Apart from being African-American and perhaps the same age, Crabman is nothing like Shrimp.

Finally, there are several critical characters in Karma! that have no counterpart in Earl - most notably, Angel Man, Frankie's unborn son, and James Randson.

e. Setting

Although both works take place in the present, the geographic and physical settings of Earl and Karma! are different. Earl is set in a suburban town named Camden. In the first episode, Earl makes reference to the fact that they have to drive into "the city." [*91] Karma!, in contrast, takes place in slums of New York City.

The physical settings are also different. In Karma!, the scenes are often set in dark and threatening locations, such as the subway, a deserted alley at night where Frankie is chased by a menacing dog, James Randson's house which is furnished with gothic paintings and filled with drug dealers, and the landfill where Frankie busts the climatic drug deal. The physical settings are for the most part gritty, dark, and somber, and reflect the dramatic mood of the screenplay.

In Earl, on the other hand, the physical settings are not ominous or threatening. Earl and Randy live in a cheap but comfortable motel, and Joy lives in a kitschy trailer park. Each setting has quirky characteristics that are set up for laughs - for example, in the motel where Earl lives, the maid rinses out plastic cups to be reused by guests; at the Crabshack - a local eatery where Earl and his friends hang out - Randy plays the "claw" videogame machine to win a live mouse instead of one of the stuffed animals; at Joy's trailer park, recliners are only allowed on the front lawn if they match the color of the trailer. The settings in Earl are used to reinforce [*92] the light-hearted, silly mood of the series. There are no unique physical settings in Karma! that also appear in Earl. [25]

25 Plaintiff notes that both works have scenes that take place in a bar/restaurant. However, a bar or restaurant is not a unique copyrightable setting.

Plaintiff notes that both works use rock music from the 1970s and 1980s in the background. However, the works do not use the same songs. Moreover, while the rock songs used in Plaintiff's work all relate to either the theme of karma or to religious themes - thereby reinforcing the religious undertones of the work - the rock songs used in Earl are not thematically similar to one another (e.g., compare Cindy Lauper's "Time After Time" and Lynyrd Skynyrd's "Steps"). Finally, the use of modern rock music in a work set in the present day is not a copyrightable expression.

f. Mood and Pace

Earl is paced as a television show, with half-hour long episodes. Each episode is structured in the same basic manner with Earl choosing which wrong he is going to remedy, and then taking the necessary steps to see it through. Earl also narrates each episode with flashbacks to the points in time in which he committed the initial bad act. [*93] The events in the first season occur over the span of several years' time, as Joy has an infant in the pilot episode (Crabman's baby), and in a later episode (Barn Burner), Joy's kids appear to be the age of school children. Further, some of Earl's flashbacks bring the audience back to a time where Earl was a young child.

Karma!, on the other hand, is paced as a full-length feature film with the action reaching a crescendo at the end of the film. The entire screenplay unfolds over a matter of days, or at most weeks. There is only one flashback, and unlike in Earl, none of the characters act as a narrator.

Earl is a comedy. The mood of the series is light and cheerful. The main character is witty and sarcastic and often finds himself in humorous situations. While in some episodes, Earl attempts to remedy what would ordinarily be considered a serious wrong - for example, faking his own death - the events are always presented in a light-hearted and humorous way.

Karma! is written as a dramatic action film with a few humorous moments. The little humor in Karma! comes from Frankie's sarcasm, but the situations themselves are not comical. Frankie's past wrongs are not made light of; instead [*94] they have the potential to ruin the life of his unborn child. For the most part Karma! is a serious depiction of Frankie's spiritual awakening and his redemption.

g. Dialogue

To support a claim of substantial similarity based on dialogue, the plaintiff must demonstrate "extended similarity of dialogue." *Olson v. National Broadcasting Co., 855 F.2d 1446, 1450 (9th Cir. 1998)*. Ordinary words and phrases are not entitled to copyright protection, nor are "phrases or expressions conveying an idea typically expressed in a limited number of stereotyped fashions." *Narell v. Freeman, 872 F.2d 907, 911-12 (9th Cir. 1989)*. Here, the works have no similar dialogue.

Plaintiff's work is riddled with street slang that echoes the rough and gritty nature of the characters and New York City generally. For example, when Frankie first sees the picture of the angel, he exclaims, "well Mr. Guardian angel where are you now?! I stole your buddies [sic] wallet right under his nose . . . . Shit! I'm hip to your shit!!" (Rubin Decl., Exh. D, pg. 82). Other examples include when street kids tell Frankie, "Look holmes! You're messin' with the wrong mother . . ." (Id. at 106.) or when James Randolph tells Sonny, "It's [*95] my money that . . . financed your bitches. . . . Good work Dawgs." (Id. at 169.) This hard-core street vernacular is unique to Plaintiff's work; it has no counterpart in Earl. Rather, the dialogue in Earl is principally sarcastic and witty. Every serious thought is followed up with a humorous quip, geared toward keeping the mood of the series light. The dialogue in the two works is not similar.

Plaintiff points to several alleged similarities in dialogue; however, when the works are examined, these similarities prove to be nonexistent or insubstantial. For example, Plaintiff notes that in both works a supporting character tells Frankie and Earl that they are forgiven for a past misdeed. Although each character uses some variation of the word "forgive," this is a standard, ordinary word that is not entitled to copyright protection. Similarly, Plaintiff notes that in one scene, Frankie says "I'll be damned," while Earl says "Damn." These expressions are not the same, nor do they have the same meaning; regardless, these short phrases are not copyrightable. Third, Plaintiff points out that in Karma!, Frankie yells at Angel Man when he is frustrated with his journey to redemption, and Earl [*96] yells toward the sky at "karma" when he neglects his list and bad things happen to him. But the two characters do not use the same language, nor are the scenes otherwise similar.

Finally, Plaintiff notes that each work contains several references to Catholicism. However, none of the references include the same words. More importantly, the references to Catholicism play different roles in each work. As discussed above, in Karma!, religion is an important backdrop for Frankie's transformation. The religious references demonstrate that Frankie initially does not believe in God, but as the story progresses, he begins to have faith in the power of God, and eventually enters the afterlife as an angel. As Frankie himself relates, Frankie turns his life around by the "grace of God."

In Earl, on the other hand, the religious references are comedic and used to draw laughs. For example, most of the religious references Plaintiff points to occur in the episode "Quit Smoking." In that episode, Earl let his friend Donny take the fall for Earl's botched bank robbery, and when Donny goes to prison, he finds religion. Once Donny is released, Earl goes to Donny's house to make amends, and discovers that [*97] his former criminal friend is now a religious zealot. Donny's faith is portrayed as over-the-top and ridiculous - for example, Donny has a large tattoo of Jesus on his chest, and peers through the collar of his shirt to ask Jesus for advice. Donny also asks Earl if he would like to see that tattoo of Moses parting the red sea on Donny's buttocks, and Donny's mother has Earl read to her from a 4-foot-thick Bible with enlarged print. In a later episode also featuring Donny, Donny says, "Oh, I want Jesus to see this," and unbuttons his shirt to reveal the tattoo. The remaining religious references are also used for comedic effect - e.g., Randy dresses as a nun, and Earl's father tells door-to-door missionaries that "for the last time, we already have a lord." Earl himself does not appear to be religious, nor does he take Catholicism seriously. In short, unlike in Plaintiff's work, the religious references in Earl are not serious, and they bear no relation to Earl's karmic realization or his journey to be a better man.

IV. CONCLUSION

For the reasons stated above, the Court holds that Plaintiff has not introduced sufficient evidence, beyond pure speculation and conjecture, to establish a [*98] triable issue of fact regarding Defendants' access to Plaintiff's screenplay. Additionally, even assuming arguendo that there is a triable issue regarding access, no reasonable jury could conclude that Karma! and Earl are substantially similar. For these reasons, the Court GRANTS Defendants' Motions for Summary Judgment.

IT IS SO ORDERED.

DATED: 2/22/10

/s/ Stephen V. Wilson

STEPHEN V. WILSON

UNITED STATES DISTRICT JUDGE

EXHIBIT 5

LEXSEE 2006 U.S. DIST. LEXIS 38430

JOHN MANNICK, Plaintiff, v. KAISER FOUNDATION HEALTH PLAN, INC., et al., Defendants.

No. C 03-5905 PJH

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

2006 U.S. Dist. LEXIS 38430

June 9, 2006, Decided
June 9, 2006, Filed

SUBSEQUENT HISTORY: Reconsideration denied by, Motion granted by, Objection overruled by *Mannick v. Kaiser Found. Health Plan, Inc., 2006 U.S. Dist. LEXIS 57173 (N.D. Cal., July 31, 2006)*

PRIOR HISTORY: *Mannick v. Kaiser Found. Health Plan, Inc., 2005 U.S. Dist. LEXIS 40405 (N.D. Cal., Dec. 16, 2005)*

COUNSEL: [*1] For John Mannick, Plaintiff: Paul L. Rein, Law Offices of Paul L. Rein, Oakland, CA; J. Gary Gwilliam, Gilliam Ivary Chiosso Cavali & Brewer, Oakland, CA; Julie McLean, Patricia Barbosa, Law Offices of Paul L. Rein, Oakland, CA.

For Kaiser Foundation Health Plan Inc., Kaiser Foundation Hospitals, Defendants: Janine Simerly, Francis J Torrence, Jennifer Svanfeldt, Kari Erickson Levine, Seyfarth Shaw LLP, San Francisco, CA.

JUDGES: PHYLLIS J. HAMILTON, United States District Judge.

OPINION BY: PHYLLIS J. HAMILTON

OPINION

ORDER GRANTING DEFENDANTS MOTION FOR SUMMARY JUDGMENT AND DENYING PLAINTIFFS MOTION FOR SUMMARY JUDGMENT

The parties cross-motions for summary judgment came on for hearing before this court on May 31, 2006. Plaintiff appeared by her counsel Patricia Barbosa, Paul Rein, and J. Gary Gwilliam. Defendants appeared by their counsel Kari Erickson Levine and Janine Syll Simerly. Having read the parties papers and carefully considered their arguments and the relevant legal authority, and good cause appearing, the court hereby GRANTS defendants motion and DENIES plaintiffs motion as follows

BACKGROUND

This is a disability access case, alleging violations of federal and state [*2] law. Plaintiff John Mannick suffers from advanced-stage multiple sclerosis, and requires the use of a wheelchair for locomotion. His left arm and both legs are immobile. In January 2003 he developed a viral infection that threatened to cause him to lose the use of his right arm -- his last functioning limb. He was hospitalized from January 2, 2003, through January 8, 2003, in the medical-surgical ward at Kaiser Oakland Main Hospital ("Kaiser Oakland").

Kaiser Oakland is one of the oldest hospitals run by defendants Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals ("Kaiser" or "defendants"). The low-rise part of Kaiser Oakland was constructed in 1956, and the hospital tower was completed in 1970. The hospital is currently licensed for 346 beds.

In 1994 the California Legislature passed Senate Bill 1953, an amendment to the 1983 Hospital Facilities Seismic Safety Act. S.B. 1953 required all hospitals in California to retrofit, rebuild, or close their general acute care inpatient hospital buildings by 2008 (subsequently extended to 2013) if the buildings did not meet strict new seismic safety standards. Because of the age of the Kaiser Oakland buildings, Kaiser determined [*3] that the seismic upgrades would be difficult or impossible to accomplish, and would also be prohibitively expensive.

Kaiser initially determined to build a new hospital in Emeryville and close the Oakland facility. Kaiser purchased property in Emeryville and developed architectural plans, but abandoned that plan when the City of Oakland objected to Kaiser locating the hospital outside of Oakland.

In 1996, Kaiser decided it would permanently close Kaiser Oakland hospital in three years. Kaiser began formulating plans for its hospitalized patient population to use available beds in other community hospitals, and for particular populations to be transferred to specific hospitals. Kaiser entered into an agreement with Alta Bates Hospital to utilize its available beds for Kaiser Oaklands women and children in-patient populations, and also arranged for Kaiser Oaklands pediatric intensive care service to be transferred to Childrens Hospital. Kaiser hoped to be able to transfer Kaiser Oaklands remaining pediatric services and its general adult services population to Summit Hospital, but that plan failed. In 2000, Kaiser began planning associated with building a replacement hospital and keeping [*4] Kaiser Oakland open until the new facility was completed.

As of January 2003, there were no patient rooms with wheelchair-accessible bathrooms and showers in Kaiser Oaklands medical-surgical wards (5th to 10th floors). At some point while plaintiff was hospitalized, his catheter (which he uses 24 hours a day) failed. He wanted to take a shower, but was unable to roll his wheelchair into the shower in the bathroom adjoining his room. The nurses offered to give him a bed bath, but he insisted on a shower. Hospital aides took him to a roll-in shower located in the old 4th floor maternity ward, where they helped him shower. Plaintiff was not satisfied, however, because he felt that the showers shelf-type bench was too narrow and slippery for safety.

Plaintiff filed this action on December 31, 2003, alleging denial of access to public facilities in violation of Title III of the Americans With Disabilities Act, *42 U.S.C. § 12181, et seq.* (access to public accommodations and services operated by private entities); *California Civil Code § 54* and *§ 54.1* (access to public accommodations by physically disabled persons); and *California Health & Safety Code §§ 19955 , et seq.* [*5] (access to public accommodations by physically handicapped persons); and seeking injunctive relief and damages.

Plaintiff alleges that Kaiser discriminated against him by failing to provide him with an accessible patient room, and by failing to transfer him to a facility that had an accessible patient room. Plaintiff asserts that while the room he was given at Kaiser Oakland had a bathroom with a toilet and a shower, neither were wheelchair-accessible, and that the hospitals offer of a portable commode and bed-baths (by nurses) or a dangerous and inadequate shower in the old maternity ward instead of an accessible toilet and shower was discriminatory because it was based solely on his disability. He also asserts that the patient drop-off parking area was inadequately configured; and that there was inadequate disabled and van-accessible parking, and inadequate paths of travel from the parking areas to the hospital.

The case was referred to a magistrate judge for settlement. The parties initially agreed to forego all formal discovery during the settlement discussions. Following a series of six settlement conferences, the parties submitted a proposed consent decree to the court [*6] on September 16, 2005. The proposed consent decree addressed only the issue of injunctive relief, not the issue of liability or the claims for damages or attorneys fees.

On September 19, 2005, Kaiser filed a notice of substitution of counsel. On September 20, 2005, the court signed the consent decree. Pursuant to the consent decree, Kaiser agreed to perform extensive construction and restructuring to provide accessible bathrooms and showers in patient rooms on each of Kaiser Oaklands five patient floors.

Specifically, Kaiser agreed to create 75 accessible parking spaces, including 10 van-accessible spaces; accessible paths of travel from parking spaces to hospital entrances; accessible hospital entrances, with signage; 3 fully accessible patient rooms, one to be completed by the end of 2005; and 3 fully accessible showers/restrooms for use by disabled patients assigned to rooms that are not otherwise fully accessible. Kaiser also agreed to evaluate the needs of disabled patients and to give them the option of transferring to another Kaiser facility for the term of their hospitalization, pending construction of the accessible rooms.

The consent decree provides that defendants "do [*7] not admit liability to the allegations in Plaintiffs Complaint filed in this action," and that "[t] he parties have reached an agreement of the claims asserted by Plaintiff for the purpose of resolving this lawsuit without the need for protracted litigation, and without the admission of any liability." Consent Decree P 2. Additional relevant provisions of the consent decree are as follows:

> In order to avoid the costs, expense, and uncertainty of protracted litigation, the parties to this consent decree agree to entry of this Order to resolve all claims regarding the injunctive relief raised in the Complaint filed with the Court on December 31, 2003. Accordingly, they agree to the entry of this Order without trial or further adjudication of any issues of fact or law concerning plaintiffs claims for injunctive relief.

Consent Decree P 4.

> This order shall be a full, complete, and final disposition and settlement of Plaintiffs claims against Defendants for injunctive relief that have arisen out of the subject Complaint. The parties agree that there has been no admission or finding of liability or violation of the ADA and/or California civil rights laws, and this [*8] Consent Decree should not be construed as such. Moreover, this Consent Decree cannot be used as evidence by Plaintiff to prove the damages portion of his case.

Consent Decree P 5.

> The parties have not reached an agreement regarding Plaintiffs claims for statutory, actual, treble and personal injury damages in this matter, and for Plaintiffs claims for attorneys fees, litigation expenses and costs. These issues shall be the subject of further negotiation, litigation, or motion to the Court.

Consent Decree P 7.

> [E] ach of the parties to this Consent Decree . . . releases and forever discharges each other Party . . . from all claims, demands, actions, and causes of action of whatever kind or nature, presently known or unknown, arising out of or in any way connected with this Lawsuit.

Consent Decree P 10.

> Except for all obligations required in this Consent Decree, the parties intend that this Consent Decree apply to all conditions that existed at the subject facilities and all such further loss with respect to the Lawsuit, except those caused by the parties subsequent to the execution of this Consent Decree. Therefore, except for all such [*9] obligations required in this Consent Decree, this Consent Decree shall apply to and cover any and all claims, demands, actions and causes of action by the parties to this Consent Decree with respect to the Lawsuit, whether the same are known, unknown or hereafter discovered or ascertained. . . .

Consent Decree P 11.

On October 7, 2005, Kaisers new counsel filed a motion to stay the action and compel arbitration. That motion was denied on December 16, 2005. On February 16, 2006, Kaiser filed another substitution of counsel.

Each side now seeks summary adjudication on liability. Kaiser seeks summary adjudication on the question whether the Kaiser Oakland was obligated to provide plaintiff with a wheelchair accessible bathroom and shower. Plaintiff seeks summary judgment on all issues of liability.

DISCUSSION

A. Legal Standard

Summary judgment is appropriate when there is no genuine issue as to material facts and the moving party is entitled to judgment as a matter of law. *Fed. R. Civ. P. 56*. Material facts are those that might affect the outcome of the case. *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986).* [*10] A dispute as to a material fact is "genuine" if there is sufficient evidence for a reasonable jury to return a verdict for the nonmoving party. *Id.*

A party seeking summary judgment bears the initial burden of informing the court of the basis for its motion, and of identifying those portions of the pleadings and discovery responses that demonstrate the absence of a genuine issue of material fact. *Celotex Corp. v. Catrett, 477 U.S. 317, 323, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986)*. Where the moving party will have the burden of proof at trial, it must affirmatively demonstrate that no reasonable trier of fact could find other than for the moving party. On an issue where the nonmoving party will bear the burden of proof at trial, the moving party can prevail merely by pointing out to the district court that there is an absence of evidence to support the nonmoving partys case. *Id.* If the moving party meets its initial burden, the opposing party must set forth specific facts showing that there is some genuine issue for trial in order to defeat the motion. *See Fed. R. Civ. P. 56(e)*; *Anderson, 477 U.S. at 250*.

"To show the existence [*11] of a genuine issue, . . . [a plaintiff] must produce at least some significant probative evidence tending to support the complaint." *Smolen v. Deloitte, Haskins & Sells, 921 F.2d 959, 963 (9th Cir. 1990)* (quotations omitted). The court must view the evidence in the light most favorable to the non-moving party. *United States v. City of Tacoma, 332 F.3d 574, 578 (9th Cir. 2003)*. The court must not weigh the evidence or determine the truth of the matter, but only determine whether there is a genuine issue for trial. *Balint v. Carson City, 180 F.3d 1047, 1054 (9th Cir. 1999)*. If the nonmoving party fails to show that there is a genuine issue for trial, "the moving party is entitled to judgment as a matter of law." *Celotex, 477 U.S. at 323*. Regardless of whether plaintiff or defendant is the moving party, each party must "establish the existence of the elements essential to [its] case, and on which [it] will bear the burden of proof at trial." *Id. at 322*.

B. Title III of the ADA

Plaintiffs ADA claims arise under Title III of the ADA, which prohibits discrimination against disabled individuals [*12] in any place of public accommodation. *42 U.S.C. § 12182(a)*; *Bird v. Lewis & Clark College, 303 F.3d 1015, 1020 (9th Cir. 2002)*. Liability is imposed upon "any person who . . . operates a place of public accommodation" that discriminates against an individual on the basis of disability. *Id.* Aside from attorneys fees, the only remedy available to a private litigant under Title III of the ADA is injunctive relief. *42 U.S.C. § 12188(a)(1)*; *see also Wander v. Kaus, 304 F.3d 856, 858 (9th Cir. 2002)*.

In enacting the ADA, Congress adopted two systems for regulating building accessibility -- one to apply to facilities designed and constructed for occupancy before January 26, 1993, and one to apply to newly constructed or altered facilities. *See 42 U.S.C. § 12183(a)(1)* and *§ 12182(b)(2)(A)(iv)*. Congress also directed the Department of Justice (DOJ) to issue regulations implementing Title III. *42 U.S.C. § 12186(b)*. The DOJ regulations are at Part 36 of 28 C.F.R.

Only newly-constructed or altered facilities must comply [*13] with the ADA Accessibility Guidelines ("ADAAG"), which were incorporated into the DOJ regulations as Appendix A of 28 C.F.R. Part 36. *See 28 C.F.R. § 35.151(c)*. When a facility is deemed "altered," the altered portion of the facility must be made accessible "to the maximum extent feasible." The infeasibility exception "applies to the occasional case where the nature of an existing facility makes it virtually impossible to comply fully with applicable accessibility standards. . . ." *28 C.F.R § 36.402(c)*.

The demand upon preexisting facilities that are not deemed altered is much less stringent. Existing facilities must remove architectural barriers to access only where such removal is "readily achievable." *See 42 U.S.C. § 12182(b)(2)(A)(iv)*. The term "readily achievable" means "easily accomplished and able to be carried out without much difficulty or expense." *42 U.S.C. § 12181(9)*; *see also 28 C.F.R § 36.304(a)* (preexisting facilities must remove barriers to accessibility only "where such removal is readily achievable, *i.e.*, easily [*14] accomplishable and able to be carried out without much difficulty or expense"). The applicable regulations mandate that a public accommodation shall remove architectural barriers where such removal is readily achievable and provide examples of steps to remove barriers, such as repositioning shelves, rearranging tables, chairs, vending machines, display racks, and other furniture, and widening doors. *See 28 C.F.R. §§ 36.304(a), (b)*.

In determining whether an action is readily achievable, factors to be considered include --

> (A) the nature and cost of the action needed under this chapter;
>
> (B) the overall financial resources of the facility or facilities involved in the action; the number of persons employed at such facility; the effect on expenses and resources, or the impact otherwise of such action upon the operation of the facility;
>
> (C) the overall financial resources of the covered entity; the overall size of the business of a covered entity with respect to the number of its employees; the number, type, and location of its facilities; and
>
> (D) the type of operation or operations of the covered entity, including the composition, [*15] structure, and functions of the workforce of such entity; the geographic separateness, administrative or fiscal relationship of the facility or facilities in question to the covered entity.

42 U.S.C. § 12181(9)(A)-(D).

Where an entity can demonstrate that the removal of a barrier is not readily achievable, discrimination also includes the failure to make such facilities available through alternative methods if such methods are readily achievable. *42 U.S.C. § 12182(b)(2)(A)(v)*.

Although existing facilities are not required to comply with the ADAAG (unless they have been altered), the ADAAG nevertheless provides guidance for determining whether an existing facility contains architectural barriers. *Parr v. L&L Drive-Inn Restaurant, 96 F.Supp. 2d 1065, 1086 (D. Haw. 2000)*. However, deviations from the ADAAG are not necessarily determinative in establishing barriers to access. *See* 28 C.F.R. Part 36, App. A, ADAAG 2.2.

C. State Law Claims

Plaintiffs state law claims arise under *California Health & Safety Code § 19955, et seq.*, and the California Disabled Persons Act [*16] ("CDPA"), *California Civil Code §§ 54, et seq.* The purpose of *§ 19955* is to ensure that places of public accommodation constructed with private funds adhere to the accessibility standards in *California Government Code § 4450*. Government Code *§ 4450* requires that all buildings constructed with public funds be accessible to and usable by the physically handicapped. It also directs the State Architect to develop standards for making buildings accessible to persons with disabilities.

Under Government Code *§ 4450* and Health & Safety Code *§§ 19955, et seq.*, affirmative conduct on the part of a public accommodation is required only for construction of new facilities or for the repair or alteration of existing facilities (constructed prior to July 1, 1970), and then only to the area of specific alteration or repair. *Cal. Health & Safety Code § 19955*; *Marsh v. Edwards Theatres Circuit, Inc., 64 Cal. App. 3d 881, 888, 134 Cal. Rptr. 844 (1976), superceded by statute on another ground, see Hankins v. El Torito Rest., Inc., 63 Cal. App. 4th 510, 521, 74 Cal. Rptr. 2d 684 (1998)*.

Access guidelines with which public [*17] accommodations must comply are detailed in Title 24 of the California Code of Regulations. However, Title 24 does not require that facilities constructed prior to July 1, 1970, comply with its regulations unless and until the building is altered, and the Title 24 requirements apply only to the area of specific alteration. Cal. Code Regs. Title 24 § 1134B.1, 2. Moreover, the accessibility requirements of Title 24 are not triggered when a place of public accommodation makes an "[a] lteration solely for the purpose of removing barriers undertaken pursuant to [Title III of the ADA] or the accessibility requirements of [Title 24]." Cal. Code Regs. Title 24 § 1134B.2.1, Exception 3.6.

Under the CDPA, "[i] ndividuals with disabilities or medical conditions have the same right as the general public to the full and free use of the streets, highways, sidewalks, walkways, public buildings, medical facilities, including hospitals, clinics, and physicians offices, public facilities and other public places." *Cal. Civ. Code § 54(a)*. Further, "[i] ndividuals with disabilities shall be entitled to full and equal access, as other members of the general public, to [*18] accommodations . . . places of accommodation, amusement, or resort, and other places to which the general public is invited." *Cal. Civ. Code § 54.1(a)(1)*. As of 1997, the CDPA incorporates by reference an individuals rights under the ADA. *Cal. Civ. Code §§ 54(c), 54.1*. Thus, a violation of the ADA also constitutes a violation of the CDPA. *See Pickern v. Best Western Timber Cove Lodge Marina Resort, 194 F.Supp. 2d 1128, 1130 (E.D. Cal. 2002)*.

Unlike the ADA, however, the CDPA provides for the recovery of monetary damages, in the amount of three times the actual damages, but in no case less than $ 1,000.00, "for each offense." *Cal. Civ. Code § 54.3*. A plaintiff need not prove actual damages in order to recover the minimum statutory amount; he only must establish that he was denied equal access on a particular occasion. *Donald v. Cafe Royale, Inc., 218 Cal. App. 3d 168, 180-81, 266 Cal. Rptr. 804 (1990)*. Moreover, there is no requirement under the CDPA that the plaintiff show intentional discrimination in order to recover damages. *Org. for the Advancement of Minorities v. Brick Oven Rest., 406 F. Supp. 2d 1120 1129-30 (S.D. Cal. 2005)*; [*19] *Donald, 218 Cal. App. 3d at 177-80*.

D. Defendants Motion

Plaintiff asserts that Kaisers failure to provide at least one accessible patient room, at least one accessible bathroom, and at least one accessible shower as of the time he was a patient at Kaiser Oakland is a violation of Title III of the ADA as a matter of law. Defendants seek summary judgment on the claim that Kaiser violated the ADA and state law by failing to provide plaintiff with an accessible bathroom and shower in his patient room.

To establish a prima facie case of violation of Title III of the ADA, a plaintiff must show that (1) he or she has a disability, (2) the business is a "public accommodation," and (3) that the plaintiff was denied full and equal treatment because of his or her disability. *Parr, 96 F.Supp. 2d at 1070*. In the present case, there is no dispute that plaintiff is disabled, and that Kaiser Oakland is a place of public accommodation. The question is whether plaintiff was denied equal treatment because of his disability.

To prevail in a claim of discrimination based on an architectural barrier, a plaintiff must show in addition that (1) the existing facility [*20] presents an architectural barrier prohibited under the ADA, and (2) the removal of the barrier is "readily achievable." *Id.* The plaintiff bears the burden of proving the existence of an architectural barrier and suggesting a method of removing the barrier that is readily achievable, or "easily accomplishable and able to be carried out without much difficulty or expense." *42 U.S.C. § 12181(9), § 12182(b)(2)(A)(iv)*; *see also Pickern v. Holiday Quality Foods Inc., 293 F.3d 1133, 1135 (9th Cir. 2002)*; *Hubbard v. Twin Oaks Health and Rehab. Ctr., 408 F.Supp. 2d 923, 929 (E.D. Cal. 2004)*. If plaintiff satisfies this burden, the burden then shifts to the defendants, who bear the ultimate burden of proving that the suggested method of removal is not readily achievable. *42 U.S.C. § 12182(b)(2)(A)(v)*; *Colorado Cross Disability Coalition v. Hermanson Family Ltd. Partnership I, 264 F.3d 999, 1002-03 (10th Cir. 2001)*; *Hubbard, 408 F.Supp. 2d at 929*. The parties do not dispute the existence of architectural barriers in Kaiser Oakland. The question [*21] is whether the removal of those barriers was "readily achievable."

Defendants provide a brief history of Kaisers response to the passage of the ADA, [1] detailing the creation of a task force to implement Kaisers plan for ADA compliance. Edward Denton ("Denton"), the chair of the task force and a registered architect, states in a declaration that the planning team surveyed all of Kaisers hospital space, and determined that the estimated cost to remove all identified barriers in Kaisers Northern California facilities would be in excess of $ 23 million. Kaiser then prioritized all its remediation work, and focused on removing what it considered the "significant impediments" to accessibility. Kaiser also met with the disabled community to obtain their input and agreement regarding the best use of resources to remove the barriers that significantly impeded access.

1 The ADA became effective on July 26, 1992. *See* Pub.L. No. 101-336, Title I, § 108, 104 Stat. 337 (1990).

According to Denton, who was employed [*22] by Kaiser Permanente in various capacities from 1983 to 1998, Kaiser Oakland completed a number of these prioritized projects, starting in 1995. Kaiser employees Bettie Coles ("Coles" -- a Vice President and Area Manager responsible for the operation of Kaiser Oaklands medical center, including the hospital tower, and three other East Bay medical centers) and Judy L. Rowe ("Rowe" -- a licensed architect responsible for all non-replacement Hospital "capital projects" [2] over $ 25,000 in the East Bay) state in their declarations that Kaiser determined that the removal of patient toilet/shower barriers in Kaiser Oakland was not readily achievable due to extensive restructuring required and the substantial impact on hospital operations as a result of the loss of patient beds. Because the hospital facility was scheduled for replacement by 2012, the Kaiser Facilities Services Capital Projects Group team determined that the extensive restructuring required to make patient rooms accessible was not readily achievable.

2 According to Rowe, hospitals in California cannot undertake any construction unless they first obtain a permit from the Office of Statewide Healthcare Planning -- "OSHPD." The term "capital projects" refers to such construction projects.

[*23] Kaiser was sued in 2000 by Disability Rights Advocates ("DRA"), regarding issues relating to the height of examining tables and the accessibility of scales and other medical equipment in all Kaiser hospitals. According to Shari Samuels ("Samuels"), who worked for Kaiser from 1995 through July 2005 in various capacities, and who was the ADA Program Manager responsible for overseeing Kaisers efforts to comply with the settlement agreement reached in the DRA case, Kaiser worked with DRA during this period to implement a realistic barrier removal plan.

In the present motion, defendants argue that because Kaiser Oakland was constructed prior to the passage of the ADA, the question whether Kaiser had a legal obligation in 2003 to provide plaintiff with an accessible bathroom necessarily requires an analysis of whether there was any "trigger" (construction in or alteration to the patient rooms in the medical-surgical ward) prior to plaintiffs stay in January 2003 that obligated Kaiser to make bathrooms and showers wheelchair accessible, and whether the barrier removal required to provide plaintiff with these accessible facilities was "readily achievable." Defendants contend that the evidence [*24] shows that there was no such "trigger," and that the alteration of the patient rooms to create accessible bathrooms and showers was not readily achievable.

Defendants assert that simple alterations in one portion of a facility do not automatically make the entire facility subject to the new construction standards. They note that under *28 C.F.R. § 36.402(b)(1)*, normal maintenance, roofing, painting, asbestos removal, or changes to mechanical or electrical systems do not qualify as "alterations" unless they affect the usability of the building or facility.

Defendants provide evidence showing that as of January 2002, the patient rooms in the medical-surgical wards at Kaiser Oakland had not undergone any alteration or modification that triggered new construction standards under federal or state law. Rowe, who reviewed all plans dating back to the original construction date of 1970, verified that none of those plans involved construction, alteration, or repair of patient rooms on the medical-surgical floors, which would have triggered Kaisers obligation to provide plaintiff with an accessible toilet or shower during his January 2003 hospitalization.

According [*25] to Rowe, of the three construction projects completed to date in the hospital tower, the first project involved conversion of an undersized labor room and associated spaces on the 4th and 5th floors; the second project involved construction, alteration, and structural repair of a number of patient rooms on the 4th and 5th floor of the maternity ward, which began in April 2003 (after plaintiffs hospitalization) and was completed in 2004; and the third project involved creating a fully accessible patient room pursuant to the consent decree entered in the present litigation.

Defendants provide additional supporting evidence on this point from Henry Scott ("Scott"), who was employed by Kaiser from 1987 until he retired in 1997, and who was the Title 24 Project Inspector for Kaiser Oakland from 1992 until 1997; and from Herb Clore ("Clore"), who has been employed by Kaiser as an inspector since 1985, and who was the Lead Inspector of Record at Kaiser Oakland from 1989 through 1992. Both Scott and Clore state that as to the period each worked at Kaiser Oakland, there was no renovation of any patient room.

Defendants also argue that it is plaintiffs burden to show that barrier removal is [*26] readily achievable under the ADA and California law. Defendants contend that plaintiff has not met his burden, and that the undisputed evidence shows that the creation of a fully accessible patient room was not readily achievable because it was too difficult and costly.

In her declaration, Rowe discusses in detail the work necessary to create the accessible patient room that defendants agreed to construct in accordance with the September 20, 2005, consent decree. Rowe states that in order to create the extra space necessary in the bathroom for an accessible shower in a patient room, it was necessary to enlarge the patient room, which required taking space from adjacent rooms. In addition, work had to be done on the ceiling of the room under construction as well as the ceiling of the room below because of the anchorage required to the necessary above-ceiling modifications, such as lights, ductwork, and HVAC. As well, the below-floor work involved plumbing modifications and noise disruption. The total cost of the work exceeded $ 600,000.

Defendants also argue that the removal of barriers was not readily achievable based on the impact on hospital operations occasioned by the attendant [*27] loss of licensed patient beds. Rowe explains that during the period of construction of the one completed accessible room, four licensed patient beds were rendered temporarily unusable. In addition, the remodeling permanently eliminated one patient bed. According to Coles, the loss of any hospital beds is particularly significant at Kaiser Oakland because the hospital runs a high occupancy rate. Thus, Coles asserts, any loss of beds negatively impacts the operations of the hospital.

With regard to the discrimination claim, defendants assert that they did not discriminate against plaintiff because bed baths and bedside commodes are common "facilitations" for disabled patients. They note that under *42 U.S.C. § 12182(b)(2)(A)(iv)-(v)* and *28 C.F.R. § 36.305(a)*, where a public accommodation demonstrates that a particular barrier removal is not "readily achievable," a place of public accommodation must make its services and facilities available through alternative methods, if those methods are readily achievable. They note in addition, however, that under *42 U.S.C. § 12182(b)(2)(A)(ii)-(iii)*, policies and procedures [*28] need not be modified, and auxiliary aids need not be provided, if doing so would "fundamentally alter" the services or accommodations being offered or would result in an undue burden.

Defendants argue that the hospital provides bed baths as an alternative "facilitation" to barrier removal. They provide evidence showing that bed baths are a standard medical means of washing numerous patients -- not only those who are disabled under the definition set forth in the ADA -- and as such, are part of standard nursing practices. Similarly, they provide evidence showing that Kaiser provides bedside commodes as an alternative "facilitation" to many non-disabled patients, such as those who are unstable in the bathroom and will be safer if lifted onto a bedside commode.

With regard to the alleged "transfer" policy, defendants contend that they did not transfer patients from Kaiser Oakland to other hospitals because of a lack of facilities to treat those patients, as plaintiff claims. Moreover, defendants assert, that no patient, including plaintiff, has ever requested a "transfer" away from Kaiser Oakland and that patients physician. Coles states in her declaration that patients were moved to [*29] other hospitals as part of the attempt to close Kaiser Oakland and build another hospital in lieu of completing the required seismic upgrades. Coles explains that arranging the transfer of a patient such as plaintiff to another facility would be difficult, and that any such transfer would have to be evaluated on a case-by-case basis. Defendants note that under *28 C.F.R. § 36.304* and App. B at § 36.304, it is best left to the public accommodation to determine whether any particular alternative facilitation is appropriate under the given circumstances, and argue that plaintiff was not entitled to the "facilitation" of his own choosing -- such as a transfer -- without any input from the hospital.

In opposition to the motion, plaintiff asserts that defendants have admittedly spent millions of dollars to alter and renovate facilities at Kaiser Oakland. Plaintiff argues that these alterations and renovations obligated Kaiser to remove barriers in the patient rooms and to provide at least one fully accessible toilet and roll-in shower for patient use. Specifically, plaintiff contends that the 1993 renovations to the 4th/5th floor maternity ward triggered the [*30] obligation to provide access for all patients -- in the patient rooms and in parking, entrances, and paths of travel to the newly renovated patient rooms.

Plaintiff asserts that defendants cannot demonstrate that renovation to at least one patient room was not readily achievable under the ADA, because Kaiser has more than $ 25 billion in assets, and operates 30 hospitals in California. Plaintiff also claims that defendants have demonstrated conclusively that barrier removal is feasible and "readily achievable" by entering into a consent decree in which they agree to remove barriers in three patient rooms and to construct fully accessible restrooms and roll-in showers. Plaintiff also asserts that defendants failed to remove readily achievable "minor" barriers in the patient room, by, for example, modifying door handles. thresholds, and doors.

Plaintiff disputes defendants claim that providing three accessible patient rooms would seriously impact hospital operations, based on the high occupancy rate at Kaiser Oakland, and based on the fact that most of the rooms are three-bed rooms. Plaintiff contends that the impact could be minimized by staggering the work (presumably meaning that [*31] Kaiser could work on one room at a time).

With regard to the discrimination claim, plaintiff argues that he was "confined to bed" during his hospitalization solely as a result of defendants discrimination-based policies. He claims that the hospital did not have a usable lift to move him from his bed to his wheelchair, and that he had to get his wife to go home and get a sling so the lift would work. He argues that what defendants refer to as "standard operating procedures" -- use of portable commode or bed pan instead of regular toilet, and bed baths instead of access to shower -- are really "lesser facilities" and unequal treatment, which violate the ADA.

Plaintiff asserts that defendants established a policy that is discriminatory on its face by classifying all mobility-disabled patients as "bed-bound" and "confined to bed" solely based on their disability, for the purpose of depriving them of accessible toilets and roll-in showers. He argues that defendants "nursing care" policy for disabled patients (use of bed baths and bedside commode) was disability-based discrimination and was not based on an evaluation of the plaintiffs individual needs.

The court finds that defendants [*32] motion must be GRANTED. Kaiser Oakland was a "pre-existing facility," and the undisputed evidence provided by defendants shows that there was no alteration or remodeling of the patient rooms that triggered an obligation to provide an accessible patient room on one of the medical-surgical floors. The 1993 remodeling of the 4th/5th floor labor/delivery rooms did not trigger any obligation with regard to the patient rooms on the medical-surgical floors. Moreover, even if it had, the undisputed evidence shows that a renovation of a medical-surgical patient room to include a fully accessible bathroom was not "readily achievable," given the cost of the renovation and the impact on hospital operations.

Defendants have established that the actual and direct cost of modifying one patient room to create an accessible bathroom is in excess of $ 600,000, which is far from a small expense. They have also shown that the extensive work required for such modification would have a significant impact on hospital operations. The fact that defendants agreed in the consent decree to do the work does not establish that defendants had any liability under the ADA for not doing the work prior to plaintiffs [*33] hospitalization, as the consent decree by its terms cannot be used to establish liability.

The court finds further, however, that it is not necessary for defendants to establish that the creation of an accessible patient room was not "readily achievable," because plaintiff has not met his burden of showing that barrier removal *was* readily achievable. The amount of Kaisers overall financial resources is only one of the factors to be considered. Moreover, the "revenue" figure cited by plaintiff is not relevant for an analysis under the "readily achievable" standard because it is a total gross figure and does not account for expenses such as employee salaries, capital expenditures, and hospital costs.

Plaintiff has failed to incorporate the other factors into the calculus, such as the expense and difficulty of removing the barriers, the impact of barrier removal on Kaisers ability to provide medical care to its patients, and whether the existing facilitys alterations were made solely for the purpose of removing accessibility barriers.

Plaintiff attempts, in the declaration of his consultant Arthur Shorr filed in opposition to defendants motion, to rebut the statements of defendants [*34] witnesses regarding the impact of the barrier removal on hospital operations. However, Shorr is an outside consultant, who doesnt work at Kaiser and lacks the personal knowledge of defendants witnesses, and his effort is directed at discounting the methodology used by defendants witnesses -- for example, what percentage occupancy is usual at Kaiser Oakland, and what effect the loss of a certain number of patient beds would have on hospital operations -- rather than being positively directed at establishing that barrier removal would be "readily achievable."

In view of plaintiffs failure to meet his burden of coming forward with evidence to show that creating an accessible patient room was readily achievable, defendants are under no obligation to prove the affirmative defense that barrier removal is not readily achievable. *See Colorado Cross, 264 F.3d at 1002-07*.

Nor has plaintiff established that Kaisers alternative "facilitation" is discriminatory. Although plaintiff claims that it is Kaisers policy to define all disabled individuals as "confined to bed," the evidence shows that every patient that comes into Kaiser receives an "interdisciplinary care plan," which [*35] involves an assessment, on admission, of a patients needs by a nurse. Coles explains that the medical needs of every patient are determined through this care plan, and that it is the medical needs of the patient that dictate whether the patient will use a commode, a bed pan, or the toilet, or will be given a bed bath.

The evidence shows that all patients are treated equally, in that each is evaluated based on his or her mobility, and may then be confined to bed based on that assessment. Based on this mobility assessment, plaintiff was categorized a "total assist" patient with respect to hygiene needs, and a "high injury risk" because of his limited mobility. Because of this, he was not medically permitted to use the toilet.

Nor was Kaisers failure to transfer plaintiff to another facility discriminatory. First, there is no evidence that plaintiff ever requested a transfer. Second, there is no evidence that Kaiser Oakland had a "policy" of transferring patients to other facilities. What plaintiff interprets as such a policy was simply part of Kaisers plan to move its patient populations to other facilities in preparation for the demolition of Kaiser Oakland. Third, defendants have [*36] provided evidence showing that transfers, in general, are difficult and not "readily achievable."

Plaintiffs argument regarding removal of barriers to paths of travel is outside the scope of defendants motion.

E. Plaintiffs Motion

Plaintiff seeks summary judgment on his claim that Kaiser discriminated against him by failing to provide him with an accessible patient room, by offering him a bed bath and a portable commode instead of a fully accessible bathroom, and by failing to transfer him to another facility; and his claim that Kaiser violated the ADA and state law by failing to provide at least one fully accessible patient room. This motion is DENIED, because the defendants motion on the same issues has been granted.

Plaintiff also contends that Kaiser violated the ADA and state law by failing to provide an accessible roll-in shower in the remodeled bathroom on the 4th floor maternity ward, and by failing to remove architectural barriers, in connection with parking, building entrances, and paths of travel. Plaintiff claims that Kaiser made millions of dollars worth of renovations and alterations to Kaiser Oakland between 1992 and 2002, but failed to provide accessible parking, [*37] entrances, or paths of travel.

Plaintiff asserts, based on an analysis by his consultant Robert Johnson ("Johnson" -- a forensic economist), that Kaisers overall 2003 financial resources were in excess of $ 25 billion, with net income (after taxes and expenses) of more than $ 1 billion. Based on these facts regarding Kaisers financial condition, and based on Johnsons opinion that Kaiser could easily afford the renovation, plaintiff argues that the removal of the barriers was "readily achievable."

Plaintiff also argues that the Kaiser defendants denied plaintiff "full and equal access" to their public facilities in violation of Civil Code *§ 54.1* as a matter of law by constructing and altering their public facilities without providing accessible parking, entrances, and paths of travel. He asserts that although defendants have altered and renovated their medical facilities and parking lots many times since 1982, the two largest patient parking garages and the parking lot for hospital discharge do not, as of the time of this motion, provide the disabled with a fully compliant van-accessible parking space.

Plaintiff claims that evidence shows that Kaiser undertook alteration and construction [*38] at Kaiser Oakland at a cost in excess of $ 8 million dollars between 1992 and 2002, but made no provisions for accessible parking and paths of travel. Plaintiff also asserts that the evidence shows that Kaiser undertook a $ 9 million construction upgrade project in several departments in the hospital and surrounding medical buildings in 1995, and also made alterations or renovations to the Howe Street garage in 1995, all of which plaintiffs expert claims triggered access not only to the altered areas, but to the public restrooms, entrances, parking, and paths of travel to the altered areas. Plaintiff contends that Kaiser made a "business decision" not to construct the required accessibility upgrades at the time of the renovation/alteration to the building, and even went so far as to mislead the inspectors from the State.

In opposition, defendants argue that pursuant to the terms of the consent decree, plaintiff waived all barrier claims (claims for injunctive relief) that were not raised in the complaint or were not identified in the consent decree. [3] Thus, defendants assert, plaintiff is barred from using the consent decree to establish that any barrier removal was "readily achievable, [*39] " and is also barred from attempting to expand the scope of his complaint by complaining about additional barriers that he did not previously raise.

3 Defendants contend that the following barriers mentioned by plaintiff in his moving papers, and identified by plaintiffs accessibility expert Peter Margen in his declaration, were not raised in the complaint and were not identified in the consent decree as items to be completed: 1) alleged inaccessible lifts and examination tables in the emergency room; 2) alleged inaccessible patient discharge areas, parking, and path of travel issues for buildings other than the hospital; 3) alleged inaccessible public restrooms in the hospital; and 4) Kaisers allegedly discriminatory policy of transferring ob/gyn patients and pediatric patients to non-Kaiser facilities.

Defendants argue that the only issue that remains in this action is liability for and damages stemming from the claims actually raised in the complaint, and which are subject to the remediation set forth in Attachment [*40] A to the consent decree. Thus, with regard to the removal of path-of-travel barriers, defendants argue that the only issues before the court are ones identified in the consent decree -- the accessible parking spaces in the Howe Street parking structures and the MacArthur/Broadway building; the policy for parking fees for disabled parking; the policy re paths of travel for accessible parking spaces; and the McArthur Blvd. entrance to the hospital.

With regard to the van accessible parking, defendants note that plaintiffs own expert Peter Margen ("Margen") states in his declaration that the Howe Street garage vehicular entrance has a vertical clearance of 610" at one entrance and 70" at the other, while the ADA requires an 82" clearance for vans. Thus, defendants contend, fully compliant accessible spaces cannot be created in this garage, and the barrier removal is therefore not "readily achievable." [4]

4 There are apparently van-accessible parking spaces in parking facilities other than the Howe Street garage.

[*41] With regard to the issue of accessible path of travel from the parking lots to the hospital, defendants contend that plaintiffs argument rests on the mistaken assumption that every construction or renovation project undertaken in the hospital -- e.g., alterations to the pharmacy, the radiology department, and various medical departments such as orthopedics and cardiology -- triggered path-of-travel obligations. However, defendants contend, the relevant inquiry is whether the alterations are sufficiently extensive and in a location that triggers an obligation to make the external paths of travel to the hospital fully accessible.

Defendants argue that plaintiff has failed to establish the areas of remodel for several projects identified by Margen, or that all of these projects involved alterations or renovations to the hospital building. They also argue that plaintiff has not accounted for alterations made solely for the purpose of removing accessibility barriers, noting that under Cal. Code Regs, Title 24, 1134.B.2.1, ADA alterations are expressly excluded from triggering such obligations.

With regard to the construction of a roll-in shower in the 4th floor maternity ward, defendants [*42] argue that plaintiff has provided no evidence that the shower was not ADA-compliant, and that the evidence of their expert shows that it was.

In reply, plaintiff argues that the evidence shows that defendants made alternations to the hospitals maternity ward in 1993 that triggered an accessible shower; and that defendants made alternations to the parking lot and related facilities that triggered a van-accessible parking space and fully accessible paths of travel.

Plaintiff argues that defendants failed to remove any of the barriers in the patient rooms, the parking lots, the patient discharge areas, or the paths of travel, and have failed to demonstrate that any particular barrier removal was "not readily achievable" under Title III standards. For example, he argues that defendants have provided no evidence that they evaluated the patient rooms in the hospital and remedied "readily achievable" barriers such as door hardware, thresholds, or narrow doors. In addition, he claims that defendants agreement in the consent decree to remove the barriers demonstrates that such removal was "readily achievable" under Title III standards. He also contends that defendants violated the ADA and [*43] Cal. Code of Regulations Title 24 by altering the hospital and related facilities without making path-of-travel upgrades.

The court finds that plaintiffs motion with regard to the 4th floor shower and with regard to barrier removal in parking areas and paths of travel must be DENIED.

First, plaintiff provides no evidence that the 4th floor shower was not fully compliant. By contrast, defendants provide a declaration from their expert Marcus Hibser ("Hibser"), a registered architect. Hibser states that the as-built drawings for the remodel of the 4th/5th floor maternity ward show that the shower was in accordance with ADA and Title 24 requirements. He also visited the hospital and examined the shower, and states that it appeared consistent with its "as-built" condition.

As for the claim with regard to the parking areas and paths of travel, plaintiffs evidence is inconclusive. Margen identifies numerous construction projects that occurred in the hospital and its parking facilities over the years, and also identifies what he claims to be barriers and paths-of-travel issues in the parking areas, patient discharge areas, and hospital entrances. Plaintiff seems to be suggesting that any [*44] one of these construction projects would have been sufficient to trigger the obligation to add van-accessible parking and accessible paths of travel throughout the facility. However, he provides no authority for the proposition that this requirement would have been triggered by any construction at all (as opposed to construction in a specific area).

Health & Safety Code *§ 19955* states that the requirement to upgrade existing facilities applies only when repair or alteration is made to such facilities, and then "[t] his requirement shall only apply to the area of specific alteration, structural repair, or addition, and shall not be construed to mean that the entire building or facility is subject to this [requirement]." *See Marsh, 64 Cal. App. 3d at 888*. Plaintiff, however, has not established that the alleged deficient paths of travel are in the same specific area as certain alterations or repairs.

Moreover, even if we assume for the sake of argument that some of these construction projects did trigger the requirement to clear paths of travel, plaintiff has not established exactly what defendants were required to do to remove the barriers, and has not provided [*45] evidence showing that those alternations would have been "readily achievable." It is not clear that plaintiff can establish liability for failure to remove barriers to paths of travel; nevertheless, defendants not having moved on this ground, the issue remains to be tried.

Finally, with regard to the issue of van-accessible parking, it appears from the evidence provided by plaintiff that fully compliant van-accessible parking is not possible, given the vehicular clearances in the two entrances into the garage. Certainly it appears not "readily achievable." Triable issues of fact remain with respect to this part of plaintiffs motion.

F. Objections to Evidence

1. Defendants Objections to Plaintiffs Evidence (filed with defendants opposition)

Defendants object to the admission of the declarations of plaintiffs experts Robert Johnson and Peter Margen.

a. Declaration of Robert Johnson

Defendants assert that the declaration of plaintiffs expert Robert Johnson must be disregarded as a whole, because Johnsons opinions go to the ultimate issue in the case -- whether barrier removal is "readily achievable" as a matter of law.

Plaintiff asked Johnson to give an opinion as to whether [*46] the providing of one accessible hospital room at Kaiser Oakland as of January 2003 was "easily accomplishable and able to be carried out without much difficulty or expense." Johnson states in his declaration that "providing a single accessible patient room at Kaiser Oakland Hospital prior to January 2, 2003, would have been easily accomplishable and able to be carried out without much difficulty or expense, pursuant to the factors to be considered by the Court under the readily achievable provisions of the ADA."

Defendants assert that expert testimony -- such as Johnsons -- that consists of legal conclusions cannot possibly assist the trier of fact in understanding the evidence or in determining a fact in issue. *See Fed. R. Evid. 702* (expert testimony admissible only if it will assist trier of fact in either understanding the evidence or determining a fact in issue). Defendants assert further that Johnsons testimony is irrelevant, immaterial, speculative, prejudicial, and inadmissible to prove that barrier removal was readily achievable.

Defendants also contend that Johnsons testimony reflects an incorrect application of the applicable law, [*47] because he concludes that barrier removal is "readily achievable" based solely on the amount of Kaisers financial resources. Defendants note that the ADA requires the court to consider a number of factors, not just the financial resources of the public accommodation. Defendants also assert that Johnson has no construction background, and lacks all the facts, and is therefore not even qualified to express an opinion on what is "readily achievable" with regard to Kaiser Oakland.

In response, plaintiff argues that Johnson is a qualified and experienced economist, whose qualifications defendants do not dispute. Plaintiff claims that it is not proper to object that an expert opinion goes to the ultimate issue in the case, arguing that under *Federal Rule of Evidence 704*, "testimony in the form of an opinion or inference otherwise admissible is not objectionable because it embraces an ultimate issue to be decided by the trier of fact." Plaintiff also disputes that Johnsons opinions are "legal conclusions." Plaintiff asserts that it is entirely proper for expert witnesses to give opinions that apply facts to the legal standard of the case. Plaintiff also [*48] submits that Johnson examined documents produced by defendants during discovery, and that he formed his opinion based on defendants financial ability to provide accessible facilities at Kaiser Oakland. Plaintiff claims that this is not an impermissible legal conclusion.

The court finds that the objection must be SUSTAINED, to the extent that Johnsons opinions go to the ultimate issue of whether barrier removal is "readily achievable" as a matter of law. Plaintiff is correct that defendants have not provided a basis for a number of their objections, and in asserting that *Rule 704(a)* provides that opinion testimony is not objectionable simply because it embraces an ultimate issue to be decided by the trier of fact. However, defendants objection is based on Johnsons opinions with regard to ultimate *legal* conclusions, not ultimate factual issues. Testimony as to ultimate issues is not permitted when it consists of legal conclusions or opinions. *Marx & Co. v. Diners' Club, Inc., 550 F.2d 505, 508-10 (2d Cir. 1977) cited in Traumann v. Southland Corp., 858 F.Supp. 979, 985 (N.D. Cal. 1994))*.

Expert testimony is admissible when it will assist the [*49] trier of fact in understanding the evidence or determining a disputed issue of fact. See *Fed. R. Evid. 702*; *U.S. v. Hankey, 203 F.3d 1160, 1168 (9th Cir. 2000)*. However, "resolving doubtful questions of law is the distinct and exclusive province of the trial judge." *United States v. Brodie, 858 F.2d 492, 497 (9th Cir. 1988), overruled on other grounds, U.S. v. Morales, 108 F.3d 1031 (9th Cir. 1997)*. Accordingly, federal courts typically prohibit experts from interpreting the law for the court or from advising the court about how the law should apply to the facts of a particular case. Testimony "which articulates and applies the relevant law . . . circumvents the [fact finders] decision-making function by telling it how to decide the case." *Specht v. Jensen, 853 F.2d 805 (10th Cir. 1988)*.

Here, the conclusion that barrier removal was "readily achievable" is a legal conclusion for the court to reach, based on a consideration of the relevant factors.

b. Declaration of Peter Margen

Defendants assert that the declaration of Peter Margen must be disregarded as a whole because Margens [*50] opinions go to the ultimate issue in the case -- whether barrier removal was "readily achievable."

Plaintiff asked Margen to give an opinion "as to the accessibility of certain public facilities at the Kaiser Hospital in Oakland . . . and to evaluate applicable state and federal laws and regulations for disabled access standards in places of public accommodation." Margen states in his declaration that Kaiser "triggered" ADA and state accessibility requirements by conducting certain alterations, constructions, and renovations, and is therefore in violation of those laws. He also concludes that particular barrier removals are "readily achievable." Defendants assert that Margens declaration is objectionable as a whole because it constitutes impermissible legal conclusion with regard to whether barrier removal was "readily achievable" (as discussed with reference to the Johnson Declaration).

Defendants also argue that Margens testimony with regard to whether Kaiser Oakland had any accessible patient rooms is based on inaccurate facts and constitutes impermissible legal opinion, and also is not based on personal knowledge as Margen did not review all the patient rooms; arguing that Margens [*51] testimony that bed pans and bed baths are not an accommodation that complies with the purposes and intent of the ADA is an impermissible legal opinion; arguing that Margens statements that Kaiser undertook renovations worth millions of dollars without providing required disabled access, that required corrections to the parking would not have been "too expensive or difficult for a party that has the financial resources of defendants," and that "all" the construction projects at Kaiser Oakland would have triggered path-of-travel upgrades, constitute impermissible legal opinion, are based on inaccurate facts, lack foundation, and are irrelevant.

Defendants object further to Exhibits 2, 3, and 5-8 to the Margen Declaration, arguing that they are not admissible. They assert that Exhibit 2 (site map of Kaiser Oakland complex) has not been properly authenticated; that Exhibit 3 (Margens expert report) contains impermissible legal opinion and is speculative; that Exhibit 5 (construction project authorization forms) contains documents that are not relevant to the issues raised in the motion); that Exhibit 6 (unsigned internal memorandum re 1995 renovation project) is not relevant to any issue [*52] raised in plaintiffs motion; that Exhibit 7 (certificate of substantial completion) has not been properly authenticated; and that Exhibit 8 (architects plan for 2003 renovation of maternity ward) is not relevant to any issue raised in plaintiffs motion.

In response, plaintiff makes the same arguments as he did with regard to the Johnson Declaration -- that Margen is a qualified expert, and that it is permissible for an expert to render an opinion that goes to the ultimate issue in a case.

With regard to the objections to the exhibits, plaintiff responds that the documents were provided by defendants in discovery, and were authenticated by the declaration of plaintiffs counsel Julie McLean, who states that plaintiff obtained them in discovery. Plaintiff contends that these objections should be overruled because defendants did not object to the McLean Declaration.

For the reasons stated above with regard to Johnson, defendants objection to Margens conclusion that the barrier removal was "readily achievable" is SUSTAINED, as is the objection to the statement that bed pans and bed baths are not an accommodation that complies with the purposes and intent of the ADA, and the objection [*53] to the statements that required corrections to the parking would not have been "too expensive or difficult for a party that has the financial resources of defendants," and that "all" the construction projects at Kaiser Oakland would have triggered path-of-travel upgrades. The objections to Exhibits 5, 6, and 8 are SUSTAINED, as plaintiff has not responded to those objections. The objections to Exhibits 2 and 7 are OVERRULED. *See Maljack Prods., Inc. v. GoodTimes Home Video Corp., 81 F.3d 881, 889 n.12 (9th Cir. 1996)* (documents produced by a party in discovery deemed authentic when offered by a party-opponent), *cited in Orr v. Bank of Am., NT & SA, 285 F.3d 764, 777 n.20 (9th Cir. 2002).*

2. Plaintiffs Motions to Exclude Defendants Witnesses and Objections to Evidence (filed with plaintiffs opposition)

a. Plaintiffs Motion to Exclude Witnesses

Plaintiff claims that defendants originally disclosed six witnesses on April 22, 2004, and that they did not supplement the disclosure until April 18, 2006, when they added 40 previously undisclosed witnesses. Plaintiff also claims that defendants did not allow access to two storage facilities full of thousands [*54] of crucial documents until April 20 and 21, 2006. Plaintiff claims that defendants had previously refused to produce these documents, claiming that the documents were irrelevant or that production would be overly burdensome.

Plaintiff asserts that these last-minute disclosures have prejudiced his ability to prepare his own summary judgment motion or to oppose defendants motion. Plaintiff seeks an order excluding all 40 newly-disclosed witnesses from testifying in connection with motions or at trial, and striking all declarations by those witnesses filed in connection with these motions for summary judgment. Plaintiff also seeks an order excluding any "previously withheld" documents.

As stated at the hearing, a motion to exclude evidence as a discovery sanction must be brought within the applicable time limits as a separate motion, as provided under *Federal Rule of Civil Procedure 37* and the Civil Local Rules of this court. Because plaintiffs motion does not comply with those rules, the motion is DENIED.

b. Plaintiffs Objections to Evidence

Plaintiff argues that portions of the declarations of Bettie Coles, Judy Rowe, Edward Denton, Herb [*55] Clore, Henry Scott, Shari Samuels, and Nitasha Lal, all of which were filed in support of defendants motion, are inadmissible because they constitute "incompetent expert testimony." The objections are OVERRULED. The court finds that the testimony of each of these witnesses was made on personal knowledge.

For example, Coles, as Vice President of Operations for Kaiser Oakland, has personal knowledge of the date the buildings were constructed, personal knowledge of the subsequent alterations to and remodeling of the buildings, and personal knowledge of Kaiser Oaklands efforts to comply with the ADA and Title 24. Similarly, Rowe, by virtue of her managerial position, has personal knowledge of the duties of the people who reported to her, personal knowledge of construction projects completed in compliance with the ADA, and personal knowledge of the process of remodeling a single patient room to install an accessible bathroom. Both state based on their own personal knowledge that there was no construction in or alteration to any of the patient rooms in the medical-surgical wards during the time they worked at Kaiser Oakland. Samuels also testifies based on personal knowledge, and authenticates [*56] documents that were produced to plaintiff.

3. Plaintiffs Objections to Defendants Use of Previously Undisclosed Witnesses and Evidence and Objection to Evidence (filed with plaintiffs reply)

a. Plaintiffs Objections to Use of Previously Undisclosed Witnesses and Evidence

This is essentially a repeat of the plaintiffs motion to exclude witnesses, and is OVERRULED for the reasons stated above.

b. Plaintiffs Objections to Evidence Raised by Defendants in their Opposition to Plaintiffs Motion

Plaintiff argues that the declarations of defendants witnesses are filled with inadmissible evidence and should be stricken by the court.

i. Declaration of Bettie Coles in Support of Defendants Opposition

Plaintiff objects to the Coles declaration filed in support of defendants opposition to plaintiffs motion. He again argues that Coles is being offered as a lay witness, not an expert, and that the declaration should be stricken as "incompetent expert testimony," and as lacking in personal knowledge. For the reasons stated above, this objection is OVERRULED.

ii. Declaration of Kari Levine in Opposition to Plaintiffs Motion

Plaintiff contends that PP 1-9 of the declaration of defendants counsel [*57] Kari Levine -- this is the Levine opposition declaration -- should be stricken because it contains inappropriate legal argument regarding the substance of the pleadings in the case, the settlement agreement, and the legal significance of such documents. Plaintiff does not provide any specifics.

Plaintiff argues that PP 10-38 of the Levine declaration contains self-serving, inaccurate, and inadmissible hearsay testimony regarding the history of discovery in this case. Plaintiff claims that "Ms. Levines history is incomplete and misleading," but provides no specifics, except to complain that Levine included her own letters to plaintiffs counsel, but not plaintiffs counsels response. Plaintiff also asserts that as Levine and the Seyfarth firm only began representing defendants in February 2006, she can have no personal knowledge regarding any discovery events prior to that time. These objections are OVERRULED. Plaintiff has provided no specifics regarding how the declaration is inaccurate or misleading.

iii. Exh. T to the Levine Declaration in Opposition to Plaintiffs Motion

Plaintiff objects to the admission of Exh. T to the Levine declaration. This is plaintiffs second objection [*58] to the same Bettie Coles declaration filed in support of defendants motion, discussed above. This objection is OVERRULED.

4. Plaintiffs Objections to Defendants Use of New Arguments and New Evidence in Support of Defendants Reply on Defendants Summary Judgment Motion (filed one week after the filing of the reply briefs)

In what amounts to a surreply, filed without leave of court, plaintiff argues that defendants introduced a new theory in their reply -- that there was a fully accessible shower built in the 4th floor labor/delivery area when those rooms were remodeled in 1993, and that the shower to which plaintiff was taken was therefore fully accessible. Plaintiff claims that previously defendants have always argued that they had no legal obligation to provide an accessible shower to plaintiff and that they instead offered him a bed bath, and that even though the shower they took him to was *not* accessible, there was no ADA violation.

Plaintiff asserts that now, with the declaration of defendants expert Marcus Hibser filed with defendants reply, defendants have come up with this entirely new theory, which is that the maternity floor shower *was* accessible. Plaintiff argues [*59] that defendants should not be permitted to raise this new theory in a reply brief, and also asserts that Hibsers opinion is not reliable based on his review of the "as-built" plans, not on any viewing of the shower itself. Thus, according to plaintiff, because Hibser never saw the shower, he cannot honestly say, as he does in his declaration, that the roll-in shower constructed in 1993 "is the exact roll-in shower in which [p] laintiff was showered during his hospitalization stay." Plaintiff also asserts that the plans Hibser reviewed show the existing conditions prior to the renovations, and then show the proposed changes, but do not show what was actually built.

In addition, plaintiff claims that when his counsel requested the opportunity to examine the shower with plaintiffs expert in December 2003, they were told that the whole area was being remodeled again, and that the shower had been "gutted" and no longer existed in its previous state. Plaintiff asserts that defendants reply brief states that the same shower has been in existence since 1993, and that the Hibser declaration "suggests" the same, and argues that it is not fair that his counsel were denied the opportunity to [*60] see the shower.

As stated at the hearing, this "objection" constitutes an improper argument raised in response to a reply brief without leave of court. Accordingly, the objection is OVERRULED, and the surreply is stricken, as is defendants response to the surreply.

IT IS SO ORDERED.

Dated: June 9, 2006

PHYLLIS J. HAMILTON

United States District Judge

EXHIBIT 6

LEXSEE 2010 U.S. DIST. LEXIS 76826

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. MARK LESLIE, et al., Defendants.

Case Number C 07-3444

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA, SAN JOSE DIVISION

2010 U.S. Dist. LEXIS 76826

July 29, 2010, Decided
July 29, 2010, Filed

COUNSEL: [*1] For Securities And Exchange Commission, Plaintiff: Richard Hong, LEAD ATTORNEY, Alvin David Williams, U.S. Securities and Exchange Commission, Washington, DC; Jeffrey B. Finnell, Melissa A. Robertson, Scott W. Friestad, Secirities And Exchange Commission, Washington, DC; Richard B. Skaff, US Securities & Exchange Commission, Division Of Enforcement, Washington, DC.

For Mark Leslie, Defendant: Douglas R. Young, William Patrick Keane, LEAD ATTORNEYS, Farella Braun & Martel LLP, San Francisco, CA; Anthony Paul Schoenberg, Farella Braun + Martel LLP, San Francisco, CA.

For Kenneth E. Lonchar, Defendant: Danielle P. Van Wert, Robin A LinsenmayerColeman, Susan Diane Resley, Orrick, Herrington & Sutcliffe LLP, Menlo Park, CA; Elizabeth Cincotta McBride, Orrick Herrington, Menlo Park, CA; Rebecca Felice Lubens, Orrick, Herrington & Sutcliffe LLP, San Francisco, CA.

For Paul A. Sallaberry, Defendant: Jahan Pierre Raissi, LEAD ATTORNEY, Greg S. Farano, Joseph Vincent Mauch, Robert E. Schaberg, Shartsis Friese LLP, San Francisco, CA.

JUDGES: JEREMY FOGEL, United States District Judge.

OPINION BY: JEREMY FOGEL

OPINION

ORDER [1] (1) DENYING MOTION TO SEVER; (2) GRANTING IN PART AND DENYING IN PART DEFENDANTS' MOTIONS TO EXCLUDE EXPERT [*2] TESTIMONY; (3) GRANTING IN PART AND DENYING IN PART DEFENDANTS' MOTIONS FOR SUMMARY JUDGMENT AND PARTIAL SUMMARY JUDGMENT; AND (4) GRANTING SUMMARY JUDGMENT IN FAVOR OF LONCHAR AND SALLABERRY WITH RESPECT TO THE SEC'S REQUEST FOR DISGORGEMENT

1 This disposition is not designated for publication in the official reports.

[re doc. nos. 183, 186, 191, 192, 197, 200, and 206]

The United States Securities Exchange Commission ("SEC") brings this civil action against Defendants Mark Leslie ("Leslie"), Kenneth Lonchar ("Lonchar"), and Paul Sallaberry ("Sallaberry"). [2] Defendants are former officers, directors, or executives of Veritas Software Corporation ("Veritas"), a California corporation with common stock registered with the SEC during the period at issue herein. [3] The SEC asserts six claims for relief: (1) fraud in connection with the offer or sale of Veritas stock, in violation of § 17(a) of the Securities Act; [4] (2) fraud in connection with the purchase or sale of Veritas stock, in violation of § 10(b) of the Exchange Act and Exchange Act *Rule 10b-5*; [5] (3) record-keeping violations of § 13(b)(5) of the Exchange Act and Exchange Act Rule 13b2-1; [6] (4) internal control violations of § 13(b)(5) [*3] of the Exchange Act and Exchange Act Rule 13(b)(2)(B); [7] (5) lying to auditors, in violation of Exchange Act Rule 13b2-2; [8] and (6) aiding and abetting reporting violations of *§§ 13(a)* and *13(b)(2)(A)* of the Exchange Act and Exchange Act *Rules 12b-20*, *13a-1*, *13a-11*, *13a-13* and 13b2-1. With the exception of the fourth claim, which is asserted against Lonchar only, each of these claims is brought against all Defendants.

2 Michael Cully and Douglas Newton, who were named in the SEC's original complaint, have settled and no longer are parties to this action.

3 Veritas was acquired by Symantec Corporation on July 2, 2005.

4 *15 U.S.C. § 77q(a)* (Securities Act Section 17(a)).

5 *15 U.S.C. § 78j(b)* (Exchange Act Section 10(b)) and *17 C.F.R. § 240.10b-5* (Exchange Act *Rule 10b-5*).

6 *15 U.S.C. § 78m(b)(5)* (Exchange Act Section 13(b)(5)) and *17 C.F.R. § 240.13b2-1* (Exchange Act Rule 13b2-1).

7 *15U.S.C. § 78m(b)(5)* (Exchange Act Section 13(b)(5)). The SEC also alleges that Lonchar aided and abetted violations of *15 U.S.C. § 78m(b)(2)(B)* (Exchange Act Section 13(b)(2)(B)).

8 *17 C.F.R. § 240.13b2-2* (Exchange Act Rule 13b2-2)

The SEC seeks an order that Defendants be: (1) permanently enjoined from directly or indirectly [*4] violating various provisions of the Exchange Act and Exchange Act Rules; [9] (2) ordered to disgorge ill-gotten gains including pre-judgment and post-judgment interest; (3) ordered to pay a civil penalty; and (4) prohibited from acting as officers or directors of any issuer that has a class of securities registered pursuant to *§ 12* of the Exchange Act or that is required to file reports pursuant to *§ 15(d)* of the Exchange Act. [10]

9 The SEC also seeks to restrain Defendants from directly or indirectly violating: *§ 17(a)* of the Securities act; § 10(b) of the Exchange Act and Exchange Act *Rule 10b-5*; Exchange Act Rules 13b2-1 and 13b2-2; §§ 13(b)(5) and 13(b)(2)(B) of the Exchange Act; and *§§ 13(a)* and *13(b)(2)(A)* of the Exchange Act and Exchange Act *Rules 12b-20*, *13a-1*, *13a-11* and *13a-13*.

10 The SEC also requests that the Court grant such other relief as it deems just and appropriate.

Each defendant has filed a separate motion for summary judgment or partial summary judgment. Leslie moves to sever certain claims alleged against Lonchar only. Lonchar and Sallaberry move to exclude the testimony of the SEC's experts. The SEC opposes all of the motions. The Court heard oral argument on March 11, [*5] 2010.

I. BACKGROUND

Unless otherwise indicated, the following facts are undisputed for the purpose of the instant motions. Disputed facts will be identified as is relevant.

A. Defendants' job titles

Leslie served as the Chief Executive Officer ("CEO") of Veritas from 1990 to 2000. He was co-chairman of the board of directors from 1997 until 1999, when he became chairman. He resigned as CEO on December 31, 2000, but continued to serve on the board of directors until May 31, 2004. Lonchar, a Certified Public Accountant, was the Chief Financial Officer ("CFO") of Veritas from April 1997 until October 2002. Sallaberry was the executive vice president of worldwide field operations for Veritas from January 2000 until January 2003, when he became executive vice president of sales strategy.

B. The AOL transaction

Defendants are alleged to have violated securities laws by misrepresenting the nature of a business transaction between Veritas and America Online ("AOL"). During the summer of 2000, Veritas and AOL began negotiating a license for Veritas software products ("the license") as well as certain service, consulting and training commitments. Initially, Veritas offered AOL a license for a fee [*6] of $ 64 million. Early in these negotiations, AOL proposed that Veritas purchase online advertising, but Veritas declined. In September 2000, the parties agreed to a fee of $ 30 million for the license. At that price, the license would have been the largest transaction in the history of Veritas. On September 29, 2000, after AOL had signed the agreement but before the agreement had been signed by Veritas, AOL's Terry Laber called Leslie to propose changes to the license and a new advertising agreement. Leslie directed Sallaberry to call AOL's Jay Rappaport to address Laber's latest proposals. Rappaport and Sallaberry negotiated a $ 20 million increase in the price of the license, bringing the total price to $ 50 million. They also negotiated an arrangement whereby Veritas would purchase $ 20 million of AOL's online-advertising services. Leslie, Sallaberry, and Lonchar discussed the agreement, and Lonchar directed Sallaberry to document the transactions in two separate contracts. Following this discussion with Lonchar, Sallaberry signed both contracts (collectively, "the AOL transaction"). The license provided for payment within thirty days from the date of invoice, and the advertising [*7] agreement required payment within thirty days of the contract date. Sallaberry and AOL agreed orally that the payments would be made simultaneously. On December 1, 2000, both AOL and Veritas made their respective payments for the license and the advertising purchase. Lonchar later booked the bulk of the $ 50 million as revenue beginning in the fourth quarter of 2000, recognizing the rest of the payment as service revenue from the fourth quarter of 2000 through 2002.

On October 2, 2000, Leslie sent an email to the entire membership of Veritas's board of directors (including the internal audit committee) stating that, "We closed a $ 30 million deal with AOL (which will be taken to revenue in Q4). However, at the eleventh hour we got a request from AOL to gross up the deal by $ 20 million and take back an equal amount of dollars in paid advertising to AOL." In response to that email, Steven Brooks, a member of the board of directors and audit committee chairman, sent an email to Leslie, stating that, "[O]n the AOL deal, can we make doubly sure that EY [Ernst & Young] are on board with our revenue recognition in the barter context? A fair amount of SEC controversy surrounds the topic." [*8] Brooks subsequently sent Leslie a second email concerning the revenue recognition of "the recent large transaction," and Leslie forwarded this email to Lonchar. The email discussed the "two separate transactions notion," and stated "It will not hurt to be extra cautious, since as you know better than I, a single revenue recognition taint can utterly destroy a stock."

In December 2000, independent auditors from Ernst & Young reviewed the AOL licensing agreement. In January 2001, upon learning that the licensing agreement and the advertising purchase had been signed on the same day, the auditors reviewed the AOL transaction a second time. The auditors interviewed Leslie, Lonchar, and Sallaberry, seeking further information. Sallaberry directed his department to prepare documentation for Ernst & Young to support the value of the license. Leslie and Lonchar signed a management representation letter concerning the accuracy of the information provided to Ernst & Young. Following the audit, Ernst & Young provided an unqualified audit report with respect to the 2000 financial statements. In 2001, Leslie and Lonchar signed and approved public disclosure of these financial results, including [*9] the 2000 Form 10-K.

In 2002, auditors from Ernst & Young reviewed the AOL transaction a third time because the auditors discovered that the price of the license had increased by $ 20 million on the day the agreement was signed. As a result of this review, Ernst & Young indicated that it would withdraw its earlier unqualified audit report unless Veritas restated the financials related to the AOL transaction. On November 15, 2002, Veritas disclosed that the SEC had subpoenaed its records related to the AOL transaction. On January 17, 2003, Veritas announced that it would restate its financial disclosures for the license agreement and the advertising purchase (the "2003 restatement"). Between September 29, 2000 and January 17, 2003, Defendants sold shares of Veritas on the open market.

The SEC also alleges that Lonchar engaged in "smoothing violations" relating to Veritas's financials that resulted in a financial restatement in 2004 ("the 2004 restatement"). Because Lonchar moves for partial summary judgment only with respect to the claims related to the AOL transaction, the facts related to the "smoothing violations" need not be discussed here.

II. MOTION TO SEVER

Leslie moves pursuant to [*10] *Fed. R. Civ. P. 21* to sever the claims relating to the AOL transaction from the claims related to the 2004 restatement. Sallaberry and Lonchar join in the motion.

A. Legal standard

The "determination of a *Rule 21(b)* motion involves the sound discretion of the trial court . . . ." *United States v. Testa, 548 F.2d 847, 856 (9th Cir. 1977). See also Rice v. Sunrise Express, Inc., 209 F.3d 1008, 1016 (7th Cir. 2000)* (citing *Hebel v. Ebersole, 543 F.2d 14, 17 (7th Cir. 1976)*; *United States v. O'Neil, 709 F.2d 361, 367 (5th Cir. 1983))* ("It is within the district court's broad discretion whether to sever a claim under *Rule 21*."). "As long as there is a discrete and separate claim, the district court may exercise its discretion and sever it." *Rice, 209 F.3d at 1016*. However, "an attempt to separate an essentially unitary problem" is an "abuse of discretion." *Spencer, White & Prentis, Inc. v. Pfizer, Inc., 498 F.2d 358, 362 (2d Cir. 1974)*.

The application of *Rule 21* involves considerations of convenience and fairness. It also "presupposes basic conditions of separability in law and logic." *Id.* "[T]he Court will consider the following factors in making such a decision: (1) whether the claims arise [*11] out of the same transaction or occurrence; (2) whether the claims present some common questions of law or fact; (3) whether settlement of the claims or judicial economy would be facilitated; (4) whether prejudice would be avoided if severance were granted; and (5) whether different witnesses and documentary proof are required for the separate claims." *Morris v. Northrop Grumman Corp., 37 F. Supp. 2d 556, 580 (E.D.N.Y. 1999)*. In addition, "the court typically will deny a request that comes so late in the litigation that it will delay the case or prejudice any of the parties to the action." *City of Syracuse v. Onondaga County, 464 F.3d 297, 308 (2d Cir. 2006)* (citing to 7 WRIGHT, MILLER & KANE, FEDERAL PRACTICE AND PROCEDURE § 1688.1 at 510 (West 2001)).

B. Unitary problem

The SEC contends that severance would be an abuse of discretion because the two sets of allegations represent a "unitary problem." However, the instant case is unlike *Spencer*. That case involved a contract dispute in which the defendant counterclaimed under the same contract that underpinned the plaintiff's claims. Resolution of the claim and the counterclaim required interpretation of the same contract, and the success [*12] of one party's claim would necessitate the failure of the other party's claim. Under the circumstances, the Second Circuit found that severing the claims from the counterclaim was an abuse of discretion. Here, as discussed below, the claims related to the AOL transaction can be resolved in their entirety without affecting the 2004 restatement claims.

C. Whether the claims arise out of the same transaction or occurrence

The SEC's complaint involves allegations relating to a transaction with AOL as well as allegations relating to the 2004 restatement of Veritas's public financial statements. In connection with the AOL transaction, all Defendants are alleged to have violated securities laws by misrepresenting the nature of the transaction. With respect to the 2004 restatement, only Lonchar is alleged to have violated securities laws.

The SEC's basic allegations relating to the AOL transaction are as follows: all Defendants either were intimately involved in creating the transaction or at least knew all its details of the deal by October 2000. In January 2001, all Defendants had discussions with Veritas's outside auditors regarding the transaction, and all Defendants intentionally or recklessly [*13] provided the auditors with misleading statements or complete misstatements. As a result of the information provided by Defendants, the auditors improperly accounted for $ 20 million in revenue for the transaction, which artificially inflated Veritas's stock price.

The SEC's basic allegations relating to the 2004 restatement are as follows: Lonchar "smoothed" Veritas's financials for the years 2000 to 2003 by manipulating the accrued liability balances, recognizing revenue from professional services after the revenue had been earned, and by artificially inflating deferred revenue figures. The SEC does not allege that Leslie or Sallaberry was involved in this conduct.

D. Common questions of law or fact

The factual issues relating to the two sets of claims are not common, and the factual allegations concerning the AOL transaction do not overlap with the allegations concerning the 2004 restatement. The accounting rules that govern the AOL transaction and the rules that govern the conduct underlying the 2004 restatement also have little overlap, except for basic accounting fundamentals. The SEC argues that the legal issues largely are common because it alleges that Lonchar's conduct related [*14] to the 2004 restatement violated five of the same statutes that all three defendants allegedly violated in connection with the AOL transaction. However, this is not the type of legal overlap about which the Court typically would be concerned: the factual predicates underlying the violations are different, and the Court will not be required to resolve significant questions of law in isolation from those facts.

E. Whether settlement of the claims or judicial economy would be facilitated

Lonchar contends that severance will facilitate settlement; however, he bases that contention on his opinion that the 2004 restatement claims are weak and by alluding to his hope that the SEC will not pursue those claims if severance is granted. The SEC disputes both of Lonchar's contentions, and the Court has considerable doubt that severance will increase the chance of settlement in this long-running and bitterly contested litigation.

As to judicial economy, severance certainly would shorten the time in trial for Leslie and Sallaberry, but it likely would lengthen the time in trial for Lonchar and the SEC. The SEC asserts that the trial as currently planned will last twenty days but that severance would [*15] increase trial time to thirty days. The SEC argues that severance would result in a large amount of redundancy in pretrial and post trial motions, although it is not obvious to the Court that severance would create any new issues for the parties to dispute. At the same time, there is little doubt that severance necessarily would result in at least some redundancy, such as empaneling two separate juries and blocking off two separate periods of time for trial.

F. Prejudice to the defendants

Defendants contend that they will be unduly prejudiced if severance is not granted. They are concerned about two separate forms of prejudice. First, Leslie and Sallaberry fear that the jury will be psychologically prejudiced against them because of the additional allegations surrounding Lonchar. However, as just discussed, the two sets of allegations are not related to the same conduct. Careful jury instructions should be effective to ensure that the jury can separate out the two sets of allegations and the alleged conduct that is relevant to each.

Second, Defendants fear that the jury will be confused if evidence regarding both sets of allegations is presented at the same time. They contend that all [*16] of the transactions involved are complex and governed by different, highly technical accounting rules. Additionally, they contend that evidence common to the two sets of allegations may be presented in a disjointed fashion, leading to even more confusion. Again, careful jury instructions should ensure that the confusion is alleviated because, as pointed out by the Defendants themselves, the two sets of claims involve conduct that is particular to each claim. The Court also has considerable discretion with respect to the order of proof at trial.

G. Witnesses and documentary evidence

The SEC contends that it will present many common witnesses and a significant quantity of common documentary evidence with respect to the two sets of allegations. It claims that eighteen witnesses have information relevant to both sets of allegations, including Leslie, and that it will call both of its experts to opine on each set of allegations. Leslie disputes the SEC's representation as to the number of common witnesses involved, arguing that only seven of fifty-four witnesses appear to have knowledge relevant to both sets of claims. The SEC also asserts that it will present, as evidence with respect both [*17] sets of allegations, financial statements and public disclosures from 2000 to 2003; the same management representation letters and Sarbanes-Oxley certifications; and the same audit papers from both Ernst & Young and KPMG. Defendants contend that different *parts* of the documents are relevant to the different sets of allegations.

G. Timing of the motion

Leslie moved for severance on December 18, 2009, shortly after the close of discovery. At that time, a trial date of May 14, 2010 had been in place for approximately six months. That now has been vacated and the Court is engaged in a major criminal trial. In light of this development, severance would not cause significant delay.

H. Disposition

While the conduct relevant to the AOL transaction is unrelated to the conduct relevant to the 2004 restatement, the Court concludes that considerations of convenience and fairness do not weigh in favor of severance. Because of the significant number of common witnesses and documents, severance would not result in judicial economy, and Defendants have not demonstrated that they will be unfairly prejudiced unless a severance is granted. Accordingly, the motion will be denied.

III. MOTIONS TO EXCLUDE EXPERT [*18] TESTIMONY

Defendants Lonchar and Sallaberry move to exclude the testimony of Dr. Lee J. Seidler and Jeffery L. Davis, the SEC's expert witnesses. Leslie joins in the motions.

A. Legal standard

Before allowing an expert to testify, the Court has a responsibility to determine whether the expert's opinion rests on a reliable foundation and is relevant to the issue before the Court. *See Kumho Tire Co., Ltd. v. Carmichael, 526 U.S. 137, 141, 119 S. Ct. 1167, 143 L. Ed. 2d 238 (1999)*; *Daubert v. Merrell Dow Pharmaceuticals, Inc., 509 U.S. 579, 597, 113 S. Ct. 2786, 125 L. Ed. 2d 469 (1993)*. *Fed. R. Evid. 702* provides that:

> If scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise, if (1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case.

A district court has broad latitude in deciding both how to measure reliability and the ultimate reliability determination. *Kumho, 526 U.S. at 142*. [*19] The Court's focus at all times must be on the principles and methodology at issue, not the expert's conclusions. *See id. at 152*; *Daubert, 509 U.S. at 595*.

B. *Daubert* challenges to the SEC's accounting expert, Dr. Lee J. Seidler.

The SEC offers Dr. Lee J. Seidler as an accounting expert who will provide opinions on the concept of accounting materiality, generally accepted accounting principles ("GAAP"), and the accounting treatment of both the AOL transaction and the conduct underlying the 2004 restatement. Lonchar and Sallaberry move to exclude Seidler's testimony under *Daubert.* Lonchar argues that Seidler's opinion is unreliable, that it will not be helpful to the jury, and that Seidler lacks proper qualifications to testify in this matter. Sallaberry makes similar arguments. He also argues that the probative value of Seidler's opinion is substantially outweighed by its unfairly prejudicial effect.

1. Seidler's methods are reliable

Lonchar argues that Seidler's opinion is unreliable because he employed a "partisan methodology" and his opinion is based on insufficient evidence. Sallabery also asserts that Seidler's methodology regarding materiality is unreliable because it is based on [*20] unexplained and unsubstantiated subjective belief.

a. Seidler's methodology is proper

Seidler's expert report explains his principles and methods. (Lonchar's Mot. to Exclude Seidler, Ex. 3 ("Seidler report") at 8-13.) Seidler describes the concept of materiality, referring to the Financial Accounting Standards Board and Montgomery's Auditing, among other sources. *(Id.* at 8-11.) Seidler discusses GAAP, again referring to accounting authorities. *(Id.* at 12-13.) Seidler then describes the AOL transaction, referring frequently to accounting authorities throughout the discussion. Seidler also describes the transactions related to the 2004 restatement, again referring to accounting authorities throughout the discussion. Neither Lonchar nor Sallaberry attacks directly any of the authorities cited, and the Court has no reason to believe that the authorities are unreliable. Nor do Defendants allege that Seidler misapplied the principles cited.

Sallaberry argues that Seidler's materiality opinion impermissibly relies upon "unexplained, unsubstantiated subjective beliefs." To the contrary, Seidler discusses specifically the concept of accounting materiality with support from accounting authorities, [*21] including widely accepted definitions of quantitative and qualitative materiality. *(Id.* at 8-11.) He discusses the quantitative effects of the accounting for both the AOL transaction, *(id.* at 14), and the 2004 restatement *(id.* at 23-24). The rest of his report describes the circumstances of the accounting, which he defines as relevant to qualitative materiality. The report leaves no doubt that the opinion on materiality flows from the application of the accounting authorities that Seidler describes.

Sallaberry cites several cases in support of his argument. *See IMA North America, Inc. v. Maryln Nutraceuticals, Inc., No. CV-06-344-PHX-LOA, 2008 U.S. Dist. LEXIS 109623, at *21 (D. Ariz. Oct. 17, 2008)* (excluding an expert from providing testimony on the value of a machine sale when the expert did not include value for the warranty, spare parts, and service that were included undisputedly with the sale and where his stated methodology conflicted explicitly with the method he actually applied); *In re Software Tool Works Sec. Litig., 50 F.3d 615, 628 (9th Cir. 1995)* (excluding an expert who opined on the defendants' knowledge without factual support); *In re Worlds of Wonder Sec. Litig., 35 F.3d 1407, 1425-26 (9th Cir. 1994)* [*22] (excluding the same expert from *In re Software Tools* because he concluded that the defendants acted with scienter despite a factual record "that conclusive rebut[ted] any inference of scienter"). *In re Software Tools* has some relevance here, as the Court agrees that Seidler's opinion with respect to the subjective intentions of the parties is inappropriate. However, Seidler's opinion with respect to materiality is at least arguably supported by evidence in the record. The Court cannot say that Seidler's opinion is conclusively rebutted by the record or that Seidler failed to consider undisputed critical details.

Sallaberry's reliance on *SEC v. Mangan, 598 F. Supp. 2d 731, 737 (W.D.N.C. 2008)*, also is misplaced. The district court in *Mangan* concluded that an opinion on materiality was insufficient in light of the fact that an unbiased market of reasonable investors had determined that the information in dispute was immaterial. The question at issue was whether a reasonable investor would have found the information important. Here, Seidler is opining on whether the information was sufficiently important from an accounting perspective. Moreover, in the Ninth Circuit, the reaction of the [*23] market is not dispositive of the issue of legal materiality. *See No. 84 Employer-Teamster Joint Council Pension Trust Fund v. Am. W. Holding Corp., 320 F.3d 920, 934 (9th Cir. 2003)* (rejecting a bright-line rule due to inherent distortions in the real-world market). Rather, a change is stock price, or lack thereof, is merely one factor to examine.

b. The evidence upon which Seidler relied is proper

The bulk of Lonchar's objection to Seidler's testimony involves the factual basis of Seidler's opinion. Lonchar alleges that Seidler blindly accepted the SEC's version of the facts and ignored any and all evidence that contradicted that version. Lonchar also claims that Seidler did not review all of the evidence and instead relied upon the SEC's recommended consultant to gather factual information for him.

Seidler testified at his deposition that, when an issue was in dispute, he requested evidence to support the SEC's version of the facts. If there was evidence to support the SEC's contention, Seidler accepted that contention for purposes of his report. (Seidler Deposition, Lonchar's Mot. to Exclude, Ex. 7 at 547:17-23.) It is true that some facts in this case are in dispute, but "[w]hen, [*24] as here, the parties' experts rely on conflicting sets of facts, it is not the role of the trial court to evaluate the correctness of facts underlying one expert's testimony." *MicroChemical, Inc. v. Lextron, Inc., 317 F.3d 1387, 1392 (Fed. Cir. 2003)*. Defendants may cross-examine Seidler to attack the underlying factual premises of his report.

Indeed, Seidler admits that he did not review all of the documentary evidence. However, "[f]ailing to review all relevant evidence is not a ground for excluding [an expert's] testimony; rather, it provides subject matter for cross-examination. In short, Defendants' arguments go to the weight of the expert's testimony rather than admissibility." *SEC v. Johnson, 525 F. Supp. 2d 70, 75-76 (D.D.C. 2007)*. Defendants also assert that Seidler failed to review "crucial" witness testimony that contradicts the factual premise of his report, but again Defendants may bring this fact to the jury's attention on cross-examination.

Lonchar contends that Seidler relied improperly on evidence gathered by others. When Seidler was engaged by the SEC, the SEC recommended that Seidler use a consultant to help gather information. The SEC retained RSM McGladrey for this [*25] purpose. (SEC's Opp'n to Lonchar's Mot. to Exclude, Ex. 3 at 24:18-22.) Seidler testified that he did not receive input from the SEC while he was writing his opinion. *(Id.* at 106:24-107:4.) In addition, when opining with respect to some of the circumstances underlying the 2004 restatement, Seidler appears to have relied largely on the data collected in the KPMG Restatement Issue Summary. (Seidler report at 23 n.66.) An expert opinion may be based on data collected by others. *Southland Sod Farms v. Stover Seed Co., 108 F.3d 1134, 1142 (9th Cir. 1997)*. If the Defendants dispute the data that was collected, they may raise the issue on cross-examination

2. Portions of Seidler's opinion are not helpful to the jury

Lonchar also argues that Seidler's opinions will not be helpful to the jury because Seidler's report makes both credibility determinations and legal determinations. The argument essentially is an attack upon the quality of the evidence upon which Seidler relied. "[T]his is yet another criticism of [the expert] favoring [p]laintiff's view of the facts. It is not grounds for exclusion that he evaluated the credibility of evidence in reaching his conclusions." *Johnson, 525 F. Supp. 2d at 76 n.6*.

However, [*26] Seidler's opinion with respect to legal concepts and conclusions of law are excludable. "[T]he use of expert testimony is not permitted if it will usurp either the role of the trial judge in instructing the jury as to the applicable law or the role of the jury in applying that law to the facts before it." *United States v. Duncan, 42 F.3d 97, 101 (2d Cir. 1994)*. Seidler begins his discussion of materiality by explaining materiality from an accounting perspective. (Seidler report at 8.) However, he later discusses legal materiality by providing actual citations to several judicial opinions on the subject. *(Id.* at 8-9.) Seidler also quotes Securities Exchange Rule 13b2-2 in its entirety. *(Id.* at 19.) This aspect of his opinion usurps the role of the trial judge and is inappropriate. Seidler also makes references to "fraudulent" conduct and the intentions of the parties. *(Id.* at 5, 14.) This determination is within the sole province of the jury. Moreover, Seidler makes references to whether the auditors were misled or whether certain statements were misleading. *(Id.* at 5 n.2.) The auditors may testify as to whether they were misled, and it is for the jury to determine whether Defendants' [*27] statements in fact were misleading. *See Johnson, 525 F. Supp. 2d at 78* (excluding an expert who opined on the intent of the defendant and whether the auditors were misled). The SEC argues that "fraudulent" may have a different meaning in accounting literature than in legal circumstances. Even if that is true, the risk of undue prejudice from Seidler's use of that legal term would substantially outweigh its minimal probative value. *See Fed. R. Evid. 403*.

Seidler's report on occasion is argumentative and includes references to facts irrelevant to his conclusions, such as a reference to Lonchar's educational credentials, (Seidler report at 7), and speculation as to whether Sallaberry knew about the manner in which Lonchar allegedly was recognizing professional service revenues in connection with the 2004 restatement, *(id.* at 24). Accordingly, these aspects of Seidler's opinion also will be excluded.

3. Seidler is adequately qualified

Lonchar and Sallaberry argue that Seidler should not be permitted to testify as an expert because he is not qualified to opine on the transactions at issue. Defendants acknowledge Seidler's impressive credentials, but they point out that he lacks experience [*28] relating to software licensing transactions. Lonchar relies upon *United States v. Chang, 207 F.3d 1169, 1172-73 (9th Cir. 2000)*, where a district court properly excluded a putative expert who was "extremely qualified" in international finance from offering expert testimony relating to the authenticity of a "Certificate of Payback Balance." The putative expert "had expert knowledge regarding the history of, and purpose for, the issuance of obligations like the Certificate," but had no formal training in the identification of counterfeit securities. *Id. Chang* clearly is distinguishable: the instant case involves accounting related to business transactions, and Seidler has more than ample formal training in applying accounting principles to business transactions.

Lonchar also calls the Court's attention to *Diaz v. Johnson Matthey, Inc., 893 F. Supp. 358, 372 (D.N.J. 1995)*, a case in which the court excluded the testimony of a pulmonologist who had never treated a patient with a platinum allergy from testifying as an expert as to that specific allergy. The pulmonologist had read only a few papers on the allergy for purposes of the litigation and had demonstrated his lack of familiarity [*29] with those papers in his testimony. Lonchar points out that Seidler admittedly is not familiar with certain accounting rules that relate to software licenses and non-monetary transactions -- specifically SOP 97-2, APB 29, and TPA 5100.47 -- or the term "concurrent transactions."

The standard of qualification as an expert witness under *Rule 702* is not particularly high. *See Hangarter v. Provident Life & Accident Ins. Co., 373 F.3d 998, 1016, 1016 n.12 (9th Cir. 2004)* (noting that qualification requires "minimal foundation" and that the court was unaware of precedent that found it to be an abuse of discretion to admit an expert with general knowledge in a field from testifying as to more specific issues). It is undisputed that Seidler has experience applying accounting rules to business transactions, and his report applies well-known accounting principles to the transactions at issue. Lonchar does not claim that any of these principles are invalid or have been misapplied. The fact that Seidler has not applied the particular rules desired by Lonchar is not a basis for excluding Seidler's testimony.

4. The probative value of Seidler's opinion is not substantially outweighed by the danger [*30] **of unfair prejudice**

Sallaberry argues that, notwithstanding the foregoing discussion, Seidler's entire opinion should be excluded under *Fed. Rule Evid. 403* because the probative value of the opinion is substantially outweighed by the danger of unfair prejudice. However, the Court is not persuaded that Seidler's opinion is "highly subjective and unsubstantiated." As discussed above, Seidler's conclusions flow from the accounting principles described. Sallaberry also argues that the jury will confuse Seidler's discussion of accounting materiality with legal materiality, and indeed Seidler's discussion of legal materiality for the most part is subject to exclusion. That said, the balance of Seidler's discussion of accounting materiality is proper. Careful jury instructions should ensure that the jury will be able to distinguish between the two concepts of materiality.

5. Disposition

Accordingly, Seidler may testify at trial. However, he may testify regarding only the appropriate portions of his expert report. He may not testify as to legal concepts, the legal interpretation of case law and statutes, or whether specific conduct was fraudulent, intentional, or misleading in the legal sense.

C. [*31] **Motions to exclude the expert testimony of Jeffrey L. Davis**

The SEC offers Jeffrey L. Davis as a rebuttal expert to Defendants' expert Thomas Peter Berquist, who offered an opinion with respect to the importance of the 2003 restatement to reasonable investors. Sallaberry moves to exclude Davis as an expert witness under *Daubert.* Lonchar moves under *Fed. R. Civ. P. 26(a)* to exclude portions of Davis's testimony that refer to the 2004 restatement. Because Davis was not disclosed on the date designated for initial expert disclosures, Davis may offer testimony only to rebut the testimony of other experts. Lonchar argues that no defense expert offered an opinion that these aspects of Davis's opinion would "rebut."

1. Davis's report

Davis opines as to whether both the 2003 and 2004 restatements were important to investors. (Lonchar's Mot. to Exclude Davis, Ex. A ("Davis report") at P 6.) In forming his opinions, Davis performed an "event study," which is "a statistical regression analysis that examines the effect of an event on a dependent variable, such as a corporation's stock price. For securities-fraud purposes, the 'event' analyzed is the disclosure of the alleged fraud to the market." [*32] *In re Apollo Group, Inc. Sec. Litig., 509 F. Supp. 2d 837, 844-45 (D. Az. 2007)*. Davis examined Veritas's stock price in relation to six different events:

. November 15, 2002: the date on which the market first had the opportunity to react to Veritas's Form10-Q that disclosed, among other things, that the SEC had subpoenaed records relating to the AOL transaction [11]

. January 17, 2003: the date on which Veritas announced that it would restate its financials related to the AOL transaction

. March 17, 2003: the date on which Veritas issued the 2003 restatement that restated the financials of the AOL transaction

. March 18, 2003: the day after the 2003 restatement was issued

. March 15, 2004: the date on which Veritas announced it would restate its financials related to the "smoothing violations"

. March 16, 2004: the day after Veritas announced the 2004 restatement

(Davis report at P 11-14.) Davis used a statistical model of the daily price of Veritas stock for three separate time periods to filter out factors unrelated to the disclosures just described. *(Id.* at P 16.) Davis performed twenty-seven regression analyses: nine for each time period. *(Id.* at P 18.) He assumed that a company's stock [*33] price incorporates all publicly available information quickly and that information is material if it causes a statistically significant change in the stock price. *(Id.* at

PP 21-22.)

11 Veritas released the Form 10-Q on November 14, 2002, after the market had closed. (Davis Report at P 11.)

Davis concluded that the disclosure on November 14, 2002 was material, *(id.* at P 21), but that neither the disclosure on January 17, 2003 nor the disclosure on March 17, 2003 was important to investors. *(Id.)* He reasoned that the market understood that Veritas would need to restate its financials based on the November 14, 2002 disclosure, and that accordingly the effects of the 2003 restatement already had been priced into the stock. Davis also concluded that the disclosure on March 15, 2004 was material, despite the fact that there was no significant change in the price of Veritas stock that day. *(Id.* at 22.) He noted that there was a significant change in the price the next day, and opined that the disclosure was not priced into the stock until that day because the March 15, 2004 trading day was only a half day.

2. Sallaberry's *Daubert* challenge

Sallaberry claims that Davis's opinion is unreliable for [*34] two reasons. First, he argues that Davis's conclusion surrounding the November 14, 2002 disclosure is illogical because that disclosure did not reveal the alleged misrepresentations of the named defendants. Second, he contends that Davis's conclusion is unreliable because it did not filter out other negative information contained in the disclosure.

a. The information revealed by the November 14, 2002 disclosure

Sallaberry relies heavily on *Metzler Inv. GMBH v. Corinthian Colleges, Inc., 540 F.3d 1049 (9th Cir. 2008)*. In that case, the defendants operated a large, national system of for-profit vocational colleges. The plaintiffs alleged widespread fraud in enrollment practices designed to maximize Title IV funding in the form of financial aid to students. The plaintiffs asserted loss causation based either of two events: (1) a news story about a government investigation and sanction resulting from admissions fraud at one campus in California or (2) an earnings announcement that disclosed both "higher than anticipated attrition" and "voluntary compliance" with the California Attorney General's requests for information regarding admissions practices. The court found that neither event could [*35] support an inference of the disclosure of widespread admissions fraud.

The news article about the government investigation and sanction noted specifically that the investigation "[did] not affect the status of other Corinthian schools." *Id. at 1064*. The defendants operated a system of eighty-eight schools. *Id.* The court reasoned that the disclosure could not have alerted investors that there was widespread admissions fraud in the defendants' operations, and that at most, the disclosure of admissions fraud at one campus revealed only the risk of admissions fraud at other campuses. *Id. at 1064-65*.

The earnings announcement disclosed several facts, including that the defendants had missed their revenue forecast, that they had revised their earnings forecast downward for the next year, that attrition rates were higher than expected, and that enrollment had increased forty-nine percent overall. *Id. at 1065*. The plaintiffs argued that the disclosure regarding attrition was a euphemism for enrollment fraud. The court again disagreed, concluding that the plaintiffs' inference was implausible given that enrollment had increased to such a large extent. The court reasoned that it was far more plausible [*36] that the stock price fell because the defendants had missed their earnings forecast. *Id. at 1065*. The court observed that no case supported "the notion that loss causation is pled where a defendant's disclosure reveals a 'risk' or 'potential' for widespread fraudulent conduct." *Id. at 1064*.

Sallaberry argues that *Metzler* is controlling, with the obvious concession that the SEC need not show loss causation. He contends that because the Form 10-Q dated November 14, 2002 did not reveal the "truth" of an alleged misrepresentation or fraud, Davis could not conclude reliably that the market priced in any restatement relating to the AOL transaction or form a reliable opinion as to the materiality of the 2003 restatement based on a stock price movement on November 14, 2002.

The Form 10-Q dated November 14, 2002 states that:

> In response to subpoenas issued by the Securities and Exchange Commission in the investigation entitled *In the Matter of AOL/Time Warner,* we are furnishing information to the SEC, including information relating to the transactions we entered into with AOL in September of

> 2000. We are cooperating with the SEC's investigation.
>
> The transaction involved a $ 50 million software [*37] license and services sale to AOL and a $ 20 million advertising services purchase from AOL. We recognized $ 37 million of revenue in the fourth quarter of 2000 and have been recognizing the remaining $ 13 million as revenue over the three-year support period. The $ 20 million of advertising expense was recorded over the five quarters during which AOL provided advertising services to us, beginning in the fourth quarter of 2000 and ending in the fourth quarter of 2001. We are currently reviewing our accounting treatment for these transactions, focusing on the $ 20 million of advertising services expenses and $ 20 million of the revenue.

(Mauch Decl. in support of Sallaberry's Mot. to Exclude ("Mauch Decl."), Ex. 3 at 70.) The SEC argues that the Form 10-Q does assert the "truth" of the alleged misrepresentations. Davis reviewed a news article dated November 14, 2002 that discussed the fact that AOL already was involved in criminal and civil investigations regarding advertising deals such as the one disclosed by Veritas. (Davis report, Ex. 2, Document 13; Williams Decl. ISO SEC's Opp'n to Lonchar's Mot. to Exclude Davis, Ex. 7 (providing a copy of the article).) The Form 10-Q also was [*38] rather specific, focusing on the $ 20 million figure. The SEC contends that this information permits the logical inference that Veritas overstated $ 20 million in revenue from the AOL transaction.

The Court is persuaded that the instant case is distinguishable from *Meltzer*. The market had knowledge that AOL was under investigation for its accounting with respect to advertising deals of this nature. The market also knew that AOL had restated its financials in connection with similar deals. *(See* Williams Decl. ISO SEC's Opp'n to Lonchar's Mot. to Exclude Davis, Ex. 7.) The November 14, 2002 disclosure permits the reasonable inference that Veritas -- a counter-party to one of those AOL advertising deals -- also would restate its financials. By focusing on the $ 20 million figure, the November 14, 2002 disclosure provided sufficient information for the market to understand the amount of a future restatement. Defendants may cross-examine Davis vigorously to persuade the jury that his opinion is incorrect, but the opinion meets the minimum threshold for reliability.

b. Filtering for other information contained in the November 15, 2002 disclosure

Sallaberry also objects that Davis did not filter [*39] out the effect of other negative information contained in the Form 10-Q. If other information in the Form 10-Q could be responsible for the statistically significant change in stock price on November 15, 2002, then Davis's conclusion that the AOL accounting disclosure was material might not be reliable. While Davis testified that he did not read the entire Form 10-Q, he contends that he nonetheless accounted sufficiently for any confounding variables by looking at news articles from November 15, 2002. (Davis Deposition, SEC's Opp'n to Lonchar's Mot. to Exclude Davis, Ex. 4 at 161:9-15.) He claims that the news articles focused mainly on the AOL transaction and that nothing in the news articles suggested that anything else of importance happened with respect to Veritas on that day. *(Id.)*

Sallaberry argues that a more appropriate filtering mechanism would have been to read analyst reports rather than news reports. Sallaberry attaches several news articles to his moving papers. *(See* Garrett Decl. in Support of Sallberry's Reply to Mot. to Exclude ("Garrett Decl."), Exhs. 1-9; Mauch Decl., Exhs. 8-13.) He contends that the news articles cannot serve as a reliable filter because they do [*40] not reveal the certainty of a financial restatement, they discuss issues other than the AOL transaction, there is "important information" in the Form 10-Q that is not referenced in any article, and the interests of the authors are not aligned necessarily with the interests of reasonable investors. While each of these arguments appropriately may be raised on cross-examination, they do not show that Davis's opinion should be excluded entirely. Although the articles do not suggest the certainty of a restatement, many of them discuss the SEC's investigation in a negative light, referencing the fact that AOL restated similar transactions. *(See* Garrett Decl. Exhs. 1, 2, and 5.) While the articles do discuss other issues, they do not do so in a manner that appears to be negative. Sallaberry's assertion that there was "important information" that was not referenced in any article is peculiar: if the information was important to the market, it necessarily would have been the subject of discussion. Finally, the Court is satisfied that news reporters discuss information disclosed in quarterly reports because they believe that the information might be of interest to reasonable investors.

Sallaberry [*41] cites several district court decisions in support of his argument. *See In re Xcelera.com Sec. Litig., NO. 00-11649-RWZ, 2008 U.S. Dist. LEXIS 77807, 2008 WL 7084626, at *2 (D. Mass. Apr. 25, 2008)* (excluding an expert who did not consider the impact of other disclosures despite news reports with significant negative discussion of these other disclosures), *In re Omnicom Group, Inc. Sec. Litig., 541 F. Supp. 2d 546, 554 (S.D.N.Y. 2008)* (granting summary judgment because the plaintiffs could not prove loss causation with an expert's opinion that used an event study which, among other things, failed to account for important confounding factors identified in or created by news reports), *In re Executive Telecard Sec. Litig., 979 F. Supp. 1021, 1026 (S.D.N.Y. 1997)* (excluding an expert witness that did not consider the effect of a company's proposed spin-off even though "there were significant shareholder concerns 'about the wisdom of the proposed spinoff'"), and *In re Oracle Sec. Litig., 829 F. Supp. 1176, 1181 (N.D. Cal. 1993)* (faulting an expert who, among other things, did not use an event study to "more accurately [] isolate the influence of information specific to Oracle which defendants allegedly have distorted"). [*42] However, most of those cases focus on the fact that the experts failed to consider information that other sources clearly had identified as relevant.

Sallaberry refers the Court to an analyst report by US Bankcorp, which references several other negative factors, including increasing competition, lower demand for the type of products that Veritas sells, a current sales force poll, lack of growth, and margin compression. (Mauch Decl. Ex. 14.) The report also refers to the AOL transaction as "water under the bridge." *(Id.)* The authors believed that "the current risk is that there were other unnatural acts" in connection with the AOL transaction. *(Id.)* The Court notes that the report is dated November 26, 2002, and accordingly is not necessarily strong evidence of what investors thought was important on November 15, 2002. Moreover, while the US Bankcorp report is negative, the additional information contained in that report is not as critical as that at issue in the cases relied upon by Sallaberry. While Sallaberry certainly may argue to the jury that Davis did not reliably filter out other confounding variables that would have affected the stock price on November 15, 2002, he has not [*43] shown that Davis' opinion is so unreliable that it must be excluded.

2. Lonchar's Rule 26 Challenge

Lonchar contends that Davis's opinion with respect to the 2004 restatement must be excluded because it does not rebut testimony of Defendants' experts. The SEC claims that the opinion in dispute is rebuttal to the Berquist report offered by Defendants. Berquist summarized his opinion as addressing the question, "[w]ould a reasonable investor have considered the restatement of VERITAS' financial statements in March 2003 . . . to be important to a decision to buy or sell the stock of VERITAS?" (Lonchar's Mot. to Exclude Davis, Ex. B ("Berquist report") at 7.) Lonchar argues that Davis's references to the materiality of the 2004 restatement thus are inappropriate.

In response, the SEC asserts that Davis's opinion with respect to the impact of the 2004 restatement rebuts the central premise of the Berquist report. Berquist opines that the 2003 restatement was not material because it did not meaningfully impact Veritas's earnings per share ("EPS") estimate. (Berquist report at 13.) Instead of focusing on EPS estimates, Davis's analysis focuses on statistically significant changes in share price. [*44] (Davis report at P 10.) The SEC argues that demonstrating the impact of the 2004 restatement on Veritas's share price rebuts Berquist's central premise that effects on EPS estimates are the only significant measure of materiality. The Court concludes that this argument is seriously flawed. Berquist explicitly did not analyze the effect of 2004 restatement on Veritas's EPS estimates. Davis thus cannot know whether analyzing the effect of the 2004 restatement under his method would reach a different conclusion than analyzing those effects under Berquist's method.

The SEC also argues that although Berquist never opined on the subject of the 2004 restatement, Lonchar has offered an accounting expert who does offer an opinion on that subject. That expert, J. Duross O'Bryan, does discuss the materiality of the accounting underlying the 2004 restatement. However, O'Bryan, like Seidler, is an *accounting* expert. Unlike Davis, O'Bryan did not discuss materiality from the perspective of a "reasonable investor." Though O'Bryan does not define specifically his working concept of materiality, he appears to refer to accounting materiality only, and his report focuses extensively on the application [*45] of GAAP. *(See* Lonchar's Reply in Support of Mot. to Exclude Davis, Ex. B at P 17.)

3. Disposition

Davis may testify at trial because he has met the minimum threshold for reliability. However, he may testify with only with respect to the 2003 restatement; his testimony with respect to the 2004 restatement will be excluded pursuant to *Rule 26*.

IV. MOTIONS FOR SUMMARY JUDGMENT

All Defendants move for summary judgment regarding the SEC's claims related to the AOL transaction. Defendants argue that there is insufficient evidence in the record to support an inference of the mental states required by the various claims or that any of their alleged misstatements were material. Separately, Sallaberry argues that the evidence cannot support a finding that he was involved in making misstatements and preparing Veritas's records.

A. Legal standard

A motion for summary judgment should be granted if there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. *Fed. R. Civ. P. 56(c)*; *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 247-48, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986)*. The standard applied to a motion seeking partial summary judgment is identical to the standard applied to a motion [*46] seeking summary judgment of the entire case. *See Urantia Foundation v. Maaherra, 895 F.Supp. 1335, 1335 (D. Ariz. 1995)*. The moving party bears the initial burden of informing the Court of the basis for the motion and identifying the portions of the pleadings, depositions, answers to interrogatories, admissions, or affidavits that demonstrate the absence of a triable issue of material fact. *Celotex Corp. v. Catrett, 477 U.S. 317, 323, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986)*.

If the moving party meets this initial burden, the burden shifts to the non-moving party to present specific facts showing that there is a genuine issue for trial. *Fed. R. Civ. P. 56(e)*; *Celotex, 477 U.S. at 324*. A genuine issue for trial exists if the non-moving party presents evidence from which a reasonable jury, viewing the evidence in the light most favorable to that party, could resolve the material issue in his or her favor. *Anderson, 477 U.S. 242, 248-49, 106 S. Ct. 2505, 91 L. Ed. 2d 202*; *Barlow v. Ground, 943 F.2d 1132, 1134-36 (9th Cir. 1991)*. It is not this Court's task to "scour the record in search of a genuine issue of triable fact." *Keenan v. Allan, 91 F.3d 1275, 1279 (9th Cir. 1996)* (internal citations and quotations omitted). The non-moving party has the responsibility [*47] to identify with reasonable particularity the evidence which precludes summary judgment. *See id.*

B. Requisite mental states

The SEC's claims require a showing of various mental states. To establish a claim under *Section 17(a)(1)* and *Rule 10b-5*, the SEC must prove that the Defendants acted with scienter. *S.E.C. v. Leslie, No. C 07-3444, 2008 U.S. Dist. LEXIS 79790, 2008 WL 3876169, at *5 (N.D. Cal. Aug. 19, 2008)*. However, scienter is not required to establish liability under Sections 13b2-1 and 13b2-2. [12], [13] *S.E.C. v. Leslie, No. C 07-3444 JF, 2008 U.S. Dist. LEXIS 69540, 2008 WL 4183939, at *1 (N.D. Cal. Sept. 9, 2008)*. To establish a claim under *Section 17(a)(2)* and *(a)(3)*, the SEC must prove that Defendants acted negligently. *SEC v. Phan, 500 F.3d 895, 908 (9th Cir. 2007)*. To establish a claim for any aiding and abetting violation, the SEC must establish that Defendants actually knew of the primary violation and their own role in furthering it. *Leslie, 2008 U.S. Dist. LEXIS 79790, 2008 WL 3876169 at *7*. Finally, to establish a claim under Section 13(b)(5) for failing to implement a system of internal accounting controls, the plain language of the statute requires that a defendant act "knowingly." *15 U.S.C.A. § 78m(b)(5)*.

12 *17 C.F.R. 240.13b2-1* provides that "No person [*48] shall directly or indirectly, falsify or cause to by falsified, any book, record or account subject to section 13(b)(2)(A) of the Securities Exchange Act."

13 *17C.F.R. 240.13b2-2(a)* provides that: "No director or officer of an issuer shall, directly or indirectly:

> (1) Make or cause to be made a materially false or misleading statement to an accountant in connection with; or
>
> (2) Omit to state, or cause another person to omit to state, any

material fact necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading, to an accountant in connection with:

> (i) Any audit, review or examination of the financial statements of the issuer required to be made pursuant to this subpart; or
>
> (ii) The preparation or filing of any document or report required to be filed with the Commission pursuant to this subpart or otherwise.

1. Acting with scienter when providing a misstatement

The SEC alleges that Defendants provided misstatements to Veritas's outside auditor, Ernst & Young, resulting in the improper accounting treatment of the AOL transaction. Additionally, the SEC alleges that Lonchar is responsible for misstatements in Veritas's public [*49] filings. "A projection or statement of belief is a 'factual' misstatement actionable under § 10(b) if (1) the statement is not actually believed, (2) there is no reasonable basis for the belief, or (3) the speaker is aware of undisclosed facts tending seriously to undermine the statement's accuracy." *Kaplan v. Rose, 49 F.3d 1363, 1375 (9th Cir. 1994)*.

At least with respect to the *Section 17(a)(1)* and *Rule 10b-5* claims, the SEC must show that the Defendants acted with scienter when providing a material misstatement. [14] *Gebhart v. SEC, 595 F.3d 1034, 1040 (9th Cir. 2010)* (citing *Ponce v. SEC, 345 F.3d 722, 729 (9th Cir. 2003))*. Scienter is defined as a "mental state embracing intent to deceive, manipulate or defraud." *Ernst & Ernst v. Hochfelder, 425 U.S. 185, 193 n.12, 96 S. Ct. 1375, 47 L. Ed. 2d 668 (1976)*. Scienter also may be established by a showing of reckless conduct that consists of "a highly unreasonable act, or omission, that is an 'extreme departure from the standards of ordinary care, and which presents a danger of misleading buyers or sellers that is either known to the defendant or is so obvious that the actor must have been aware of it.'" *S.E.C. v. Dain Rauscher, Inc., 254 F.3d 852, 856 (9th Cir. 2001)* [*50] (quoting *Hollinger v. Titan Capital Corp., 914 F.2d 1564, 1568-69 (9th Cir. 1990) (en banc))*. "Scienter may be established, therefore, by showing that the defendants knew their statements were false, or by showing that defendants were reckless as to the truth or falsity of their statements." *Gebhart, 595 F.3d at 1041* (citing *Ponce, 345 F.3d at 729-30*). "Summary judgment is generally inappropriate when mental state is an issue, unless no reasonable inference supports the adverse party's claim." *Vucinich v. Paine, Webber, Jackson & Curtis, Inc., 739 F.2d 1434, 1436 (9th Cir. 1984)*.

> 14 This subsection discusses whether misstatements were made with scienter. The materiality of any misstatements is discussed below at subsection IV.B.

a. The 2003 restatement is not sufficient evidence of scienter in and of itself

Standing alone, the 2003 restatement is not sufficient evidence that Defendants made misstatements or acted with scienter. "'[T]he mere publication of inaccurate accounting figures, or a failure to follow GAAP, without more, does not establish scienter.'" *In re Software Toolworks, Inc. v. Painewebber, Inc., 50 F.3d 615, 627 (9th Cir. 1995)* (quoting *In re Worlds of Wonder Sec. Litig, 35 F.3d 1407, 1412 (9th Cir. 1994),* [*51] *superseded by statute on other grounds*, Private Securities Litigation Reform Act, *15 U.S.C. § 78u-4(b)(2), as recognized in Copperstone v. TCSI Corp., No. C 97-3495 SBA, 1999 WL 33295869, at *14 n.13 (N.D. Cal. Jan. 14, 1999)*).

b. Omission of the negotiation history

The SEC points out that Defendants did not inform Ernst & Young of the negotiation history of the AOL transaction, specifically the "eleventh hour" price change. However, the SEC has not presented any evidence that the Ernst & Young auditors asked Defendants for such information. The SEC contends that the auditors did ask questions "regarding the background, the business purpose for the arrangement." (Calvello Deposition, SEC's Opp'n to MSJ, Ex. 38 at 63:20-25.) However, two of the auditors testified that they did not ask Defendants about the negotiating history and that they would not have expected Defendants to have informed them about that history. *(See* Calvello Deposition, Leslie's MSJ, Ex. PP at 134:19-135:23 (Calvello testifying that he did not ask about the negotiation history, that he did not expect Veritas to inform him of that history, and that he did not think that it was important at that time); Cherrstrom Deposition, [*52] Leslie's MSJ, Ex. CCC at 276:11-25 (Cherrstrom testifying that he did not ask Leslie about the negotiating history).) The auditors spoke to several Veritas employees who knew about the eleventh-hour price change, and the negotiating history was not discussed in any of those meetings. The SEC has not cited any record that could support the inference that Defendants knew that the negotiating history was relevant to the revenue recognition of the AOL transaction. Without that evidence, the SEC cannot show that the Defendants misled the auditors solely by not informing them of the negotiating history.

c. Mark Leslie

The SEC alleges that Leslie, in his contacts with Veritas's external auditors, misrepresented that (1) there were valid business reasons for the advertising purchase and that Veritas needed the advertising, (2) the license and the advertising purchase were separate agreements that were not contingent upon each other, and (3) the license and the advertising purchase each were fairly priced.

i. Leslie's knowledge of the AOL transaction

The SEC has presented evidence that Veritas management had approved a software licensing agreement with AOL for $ 30 million. (Kelly Investigative [*53] Testimony, SEC's Opp'n to MSJ, Ex. 42 at 37:2-4.) This would have been the largest transaction in Veritas's history up to that point. (Saunders Deposition, SEC's Opp'n to MSJ, Ex. 8 at 292:22-292:3.) AOL's Terry Laber signed the agreement at the $ 30 million price on September 29, 2000. (Laber Investigative Testimony, SEC's Opp'n to MSJ, Ex. 108 at 139:18-21.) Before Veritas signed the agreement, Laber called Leslie. (Kelly Investigative Testimony, SEC's Opp'n Ex. 42 at 117:7-17.) Leslie described Laber as asking Leslie if he could "do me a favor." *(Id.* at 117:17-19.) Laber asked Leslie to restructure the deal to increase the price of the software license and to add an advertising component. *(Id.* at 117:22-24.) Leslie, describing the deal to Veritas's board of directors, said that "at the eleventh hour we got a request from AOL to gross up the deal by $ 20 million and take back an equal amount of dollars in paid advertising to AOL." (SEC's Opp'n to MSJ, Ex. 30.)

ii. Valid business reasons and the need for advertising

In January 2002, Leslie spoke with Ernst & Young about the AOL transaction. Jeffrey Calvello, one of the Ernst & Young auditors, has testified as follows:

> Q: During that [*54] discussion, did Mr. Leslie represent that the two agreements were entered into for separate and valid business reasons?
>
> A: Yes.

(Calvello Investigative Testimony, SEC's Opp'n to MSJ, Ex. 56 at 70:17-20.) Leslie also told Kenneth Cherrstrom, another Ernst & Young auditor, that Veritas needed to enter into the advertising deal for its brand recognition campaign. (Cherrstrom Investigative Testimony, SEC's Opp'n Ex. 47 at 63:15-18.)

The SEC alleges that Veritas did not want or need AOL advertising. On September 21, 2000, eight days before the agreement was signed, Laber was copied on an email from another AOL employee discussing the status of an advertising deal with Veritas. (SEC's Opp'n to MSJ, Ex. 11.) The email states: "status of ad deal -- he said they weren't close, and that Veritas was talking about doing ads after Jan. 1" and that "there were no hard figures on the table, but suggested $ 1M or so." *(Id.* [15]) On September 1, 2000, Gary Florence, a Veritas sales representative who was involved in the AOL transaction, told AOL's John Najarian that Leslie "strongly questioned whether the market segments reached via AOL/Netscape were in line with our objectives." (SEC's Opp'n to MSJ, Ex. [*55] 9.) Mark Griffiths, Veritas's director of corporate marketing, referred to the deal in an internal email as "a consequence of the sales transaction that occurred. I think that all marketing people agree that this is not something we would have done." (SEC's Opp'n to MSJ, Ex. 116 at VAOL0100974. [16]) Cynthia Martin, Veritas's director of marketing and communications, answered in the affirmative when asked if she believed it was a "stupid deal." (Martin Investigative Testimony, SEC's Opp'n to MSJ, Ex. 98 at 87:5-6.) She disapproved of the deal because "it was a lot of money spent off our strategy, our advertising strategy." *(Id.* at 87:8-9. [17]) Leslie had knowledge of that strategy because he participated in Veritas's branding council. (Leslie's MSJ at 4:13-19.)

15 Leslie objects to this and most of the other evidence discussed in this paragraph as hearsay. The SEC contends that it can produce witnesses at trial who can testify from personal knowledge as to the contents of this email. This representation is sufficient for purposes of a motion for summary judgment. *See Fraser v. Goodale, 342 F.3d 1032, 1036 (9th Cir. 2003)* (finding that "[i]t would be sufficient if the contents of the [evidence] [*56] are admissible at trial, even if the [evidence] itself may be inadmissible").

16 Leslie objects to this evidence as speculation. However, Griffiths may testify as to what he, as the director of corporate marketing, would or would not have done.

17 Leslie objects to Martin's testimony, arguing that she is speculating as to the advertising strategy because she did not participate in the branding council. In the light most favorable to the SEC, Veritas's director of marketing and communications would have personal knowledge of the company's advertising strategy.

Leslie presents evidence that he believed that Veritas did have a strong business interest in the advertising component of the deal. Griffiths testified at his deposition that he had a conversation with Leslie "about trying to find a partnership with a large online organization that we could develop that would allow us to have a better presence in the online space." (Griffiths Deposition, Leslie's MSJ, Ex. S at 46:3-7.) Leslie was CEO, a member of the branding council, and had discussions with Griffith -- the director of corporate marketing -- specifically about advertising with AOL. *(Id.)* Nonetheless, viewed in the light most favorable [*57] to the SEC, this evidence creates only a genuine issue of material fact with respect to Leslie's state of mind. Although Leslie and Griffiths discussed advertising with AOL, Griffith stated specifically that he disapproved of this specific advertising purchase. Based on the evidence, a reasonable jury could find that Leslie did not believe that Veritas desired advertising of this magnitude from AOL.

iii. Separate or contingent agreements

The SEC contends that Leslie also misrepresented the contingent nature of the license and advertising purchase. Calvello has testified as follows:

> Q: And the next sentence, "Furthermore, Veritas management have represented that AOL's commitment to pay the software license and service fees was from that separate arrangement's initiation, never contingent on the company entering into the advertising purchase agreement", do you see that sentence?
>
> A: Yes, I do.
>
> Q: Okay. Did Mr. Leslie make that representation to you during your meeting with he and Mr. Lonchar?
>
> A: Yes.

(Calvello Investigative Testimony, SEC's Opp'n to MSJ, Ex. 56 at 71:5-14.) Leslie denies making such a statement, but this creates only a dispute of material fact as to whether this conversation [*58] occurred as recounted by Calvello. Leslie claims that he does not understand what "contingent" means to an accountant. It is true that the ordinary meaning of the word varies depending on the context. For example, "contingent" can mean "happening or coming by chance; not fixed by necessity or fate; accidental, fortuitous", (Oxford English Dictionary (2d ed. 1989)), or it can mean "that does not exist of itself, but in dependence on something else," *(id.)*. However, given the context of Calvello's question, there is a reasonable inference that Calvello was referring to the latter definition.

Viewed n the light most favorable to the SEC, the evidence supports the inference that Leslie understood that the license was dependent upon the advertising purchase. Leslie has testified that:

> A: I believe that at the juncture where our proposal had been made at $ 30

> million, had nothing else changed, we would not have been able to generate a shallower discount. But something else changed.
>
> . . .
>
> Q: So what had changed?
>
> A: They wanted us to do advertising. And the deal moved to a different level of authority in the company. And those two things said together, "Gee, you can do a bigger deal here."

(Leslie [*59] Investigative Testimony, SEC's Opp'n to MSJ, Ex. 39 at 95:13-24.) The reference to a "shallower discount" refers to the price of Veritas's software license. A deeper discount would allow AOL to pay a lower price. Conversely, a shallower discount would require AOL to pay a higher price. This statement, together with Laber's request for a "favor," reasonably supports an inference that Leslie understood that the $ 50 million price of the licensing agreement depended upon the purchase of advertising.

iv. Fair value of the agreements

Leslie signed both a representation letter to Ernst & Young and the Form 10-K filed for 2000. *(See* SEC Opp'n to MSJ, Exhs. 83 and 106.) The representation letter stated that both the license and the advertising purchase, valued at $ 50 million and $ 20 million, respectively, were recorded at "fair value within reasonable limits." *(Id.*, Ex. 106 at 2.) The Form 10-K publicly disclosed the license as a $ 50 million deal and the advertising agreement as a $ 20 million deal. *(Id.*, Ex. 106.) The SEC does not offer any evidence that could support an inference that Leslie understood what "fair value" would mean to an accountant. Because Veritas originally proposed the [*60] license to AOL at a price of $ 64 million, the $ 50 million price does not appear to be objectively unreasonable or unfair. Nonetheless, Leslie described the deal as an "eleventh hour . . . gross up" by $ 20 million, (SEC's Opp'n to MSJ, Ex. 30), and he directed Sallaberry to pay sales commissions on $ 30 million rather than $ 50 million, (Sallaberry Deposition, SEC's Opp'n to MSJ, Ex. 19 at 228:5-229:12). Viewed in the light most favorable to the SEC, the latter evidence could support an inference that Leslie did not believe that the license was valued fairly at $ 50 million, even under a layperson's understanding of the concept.

iv. Evidence of scienter

As discussed previously, scienter may be established by showing that Leslie knew his statement was false or by showing he was reckless as to the truth or falsity of his statement. *Gebhart, 595 F.3d at 1041*. The evidence permits the inference that Leslie knew that the accounting regarding the AOL transaction was sensitive. On October 3, 2000, Steven Brooks, a member of Veritas's board of directors and audit committee chairman, sent an email to Leslie, asking, "[O]n the AOL deal, can we make doubly sure that EY [Ernst & Young] are on [*61] board with our revenue recognition in the barter context? A fair amount of SEC controversy surrounds the topic." (SEC Opp'n to MSJ, Ex. 31.) Brooks again emailed Leslie on October 5, 2000, discussing "the recent large transaction" and the "two separate transactions notion." (SEC's Opp'n to MSJ, Ex. 32.) Brooks stated that "[i]t will not hurt to be extra cautious, since as you know better than I, a single revenue recognition taint can utterly destroy a stock." *(Id.)* Kenneth Cherrstrom subsequently informed Leslie that the accounting for the transaction would depend on Ernst & Young's analysis. (Cherrstrom Deposition, SEC Opp'n Ex. 57 at 299:12-15.) Regardless of whether he understood the term "barter context," Brooks' emails were sufficient to alert Leslie that revenue recognition for the AOL deal was controversial. Cherrstrom's testimony also permits the inference that Leslie knew that the information he provided to Ernst & Young would affect the revenue recognition for the AOL transaction. Viewed in the light most favorable to the SEC, the evidence reasonably supports an inference that Leslie knew that he had made a misrepresentation to Ernst & Young, that the revenue recognition [*62] of the AOL transaction was controversial, and that his statements could affect the revenue recognition of the largest transaction in Veritas's history.

Leslie's arguments to the contrary are insufficient to disrupt this chain of permissible inferences. Leslie points to evidence tending to show that the license was valued fairly at $ 50 million (or at least that he believed it to be) and that he understood that the deals were not contingent. This serves only to create a dispute of material fact. Leslie contends that he openly described the details of the AOL transaction to Veritas's board of directors and audit committee, whose members also were likely to discuss the transaction with Ernst & Young. Even this, however, would not excuse Leslie personally from making misrepresentations to Ernst & Young.

Leslie relies on *SEC v. Todd, No. 03CV2230, 2007 U.S. Dist. LEXIS 38985, 2007 WL 1574756, at *5 (S.D. Cal. May 30, 2007)*, in which the SEC alleged that a CEO had hidden the relatedness of two transactions. The court in that case found that the SEC could not show scienter because the CEO had disclosed all of the details of the transaction to the company's board of directors. However, the CEO in *Todd* did not have direct [*63] contact with the outside auditors who were reviewing the transaction. He also relies on *SEC v. Goldfield Deep Mines, Co., 758 F.2d 459, 467 (9th Cir. 1985)* and *SEC v. Coffman, No. 06CV00088, 2007 U.S. Dist. LEXIS 61347, 2007 WL 2412808, at *14 (D. Co. Aug. 21, 2007)* for the proposition that the SEC cannot show scienter because he relied on the opinions of others. He contends that he did not determine the accounting for the AOL transaction, and that both internal and external reviewers determined what rules to apply and how to apply them. Again, it is Leslie's direct statements to the Ernst & Young auditors that support the SEC's claim. The fact that others approved the accounting did not relieve Leslie of his responsibility to provide accurate answers in response to Ernst & Young's inquiry.

Defendants argue collectively that they did not have any motive to make misrepresentations to Ernst & Young because Veritas was exceeding investor expectations even without the AOL transaction. This certainly is relevant evidence with respect to their intent, but "[t]he SEC is not required to prove scienter at trial through evidence of motive." *SEC v. KPMG LLP, 412 F. Supp. 2d 349, 382 (S.D.N.Y. 2006)*. To hold otherwise "inappropriately [*64] makes the scienter issue one of 'what did the defendant want to happen' as opposed to 'what could the defendant reasonably foresee as a potential result of his action.'" *Id.* (quoting *AUSA Life Ins. Co. v. Ernst & Young, 206 F.3d 202, 221 (2d Cir. N.Y. 2000)*). *See also Siracusano v. Matrixx Initiatives, Inc., 585 F.3d 1167, 1182 (9th Cir. 2009)* (citing *Tellabs, Inc. v. Makor Issues & Rights, Ltd., 551 U.S. 308, 324, 127 S. Ct. 2499, 168 L. Ed. 2d 179 (2007)* ("The Supreme Court has stated, however, that, '[w]hile it is true that motive can be a relevant consideration, and personal financial gain may weigh heavily in favor of a scienter inference, we agree with the Seventh Circuit that the absence of a motive allegation is not fatal.'"). Even without evidence of motive, the SEC's evidence permits the inference that Leslie knew that his statements to Ernst & Young would affect the revenue recognition of the AOL transaction, thereby permitting the inference that Leslie foresaw that Ernst & Young would be misled.

d. Kenneth Lonchar

The SEC alleges essentially that Lonchar, in his interactions with Ernst & Young, misrepresented that (1) the transactions were separate and negotiated by separate individuals, (2) Veritas needed [*65] the AOL advertising to strengthen brand recognition, and (3) that the transactions were valued fairly in SEC filings, a management representation letter to Ernst & Young, and Veritas's internal records. Finally, the SEC alleges that Lonchar failed to disclose an oral agreement that modified the written payment terms of the AOL transaction.

i. Lonchar's knowledge of the AOL Transaction

Lonchar was involved in Defendants' discussion of AOL's proposal to increase the licensing fee and to enter into an advertising agreement. Leslie testified that Laber called him to propose the advertising deal. Leslie then directed Sallaberry to contact Jay Rappaport at AOL. (Leslie Investigative Testimony, SEC Opp'n to MSJ, Ex. 39 at 88:9-11.) Sallaberry has testified that, after speaking with Rappaport, he met with Leslie and Lonchar in person. (Sallaberry Investigative Testimony, SEC Opp'n to MSJ, Ex. 48 at 52:18-22.) Sallaberry then "relay[ed] to them the conversation we just had [the conversation with Rappaport.]" *(Id.* at 53:13-14.) According to Leslie, Sallaberry "outlined the $ 20 million shallower discounts to increase the revenue by $ 20 million and advertising of $ 20 million." (Leslie Investigative [*66] Testimony, SEC Opp'n to MSJ, Ex. 39 at 89:8-11.) While Sallaberry discussed Laber's proposal to increase the price of the license by $ 20 million, neither Leslie, Lonchar, nor Sallaberry discussed whether the terms of the license would change as a result of that price increase. Sallaberry asked Lonchar how to structure the overall transaction, and Lonchar told him to make two separate contracts and that each party should pay cash. (Sallaberry Investigative Testimony, SEC Opp'n to MSJ, Ex. 48 at 66:1-10.) Leslie testified at his deposition that Lonchar was present at a meeting on October 2, 2000, and that he "[doesn't] believe that there was anything that [he] had knowledge of that wasn't expressed in that meeting." (Leslie Deposition, SEC Opp'n to MSJ, Ex. 29 at 361:7-12.) The SEC presents evidence tending to show that Leslie knew of the last-minute change in price, and the same evidence permits the inference that Lonchar also knew these details.

After the written agreement was signed, there was a dispute as to when AOL needed to pay Veritas for the license. Under the written terms of the agreement, Veritas was required to pay $ 20 million to AOL within thirty days of signing the agreement. [*67] (Lonchar's Reply in Support of Mot. for Partial SJ, Ex. 15 at 175.) Because the agreement was signed on September 29, 2000, Veritas's payment was due under the terms of the agreement by October 29, 2000. The written terms also provided that AOL was to pay within thirty days of the invoice. *(Id.)* AOL had refused to pay before December 1, 2000, which concerned Veritas employees. (SEC's Opp'n to MSJ, Ex. 79.) On November 14, 2000, Veritas had not yet paid AOL for the advertising purchase, and Sallaberry copied Lonchar on an email to Michael Cully in which Sallaberry said, "Jay Rappaport and I agreed to do a simultaneous wire transfer." (SEC's Opp'n to MSJ, Ex. 79.) It appears that Vertias and AOL exchanged payments on December 1, 2000. (SEC's Opp'n to MSJ, Ex. 80.)

ii. Separate transactions negotiated by separate individuals

The SEC offers the deposition of Ernst & Young auditor David Price to support its contention that Lonchar misrepresented the contingent nature of the transaction. Price has testified that "I recall Mr. Lonchar indicating that his belief was no, they were two separate transactions negotiated by separate individuals in the company for separate business purposes." (Price [*68] Investigative Testimony, SEC's Opp'n to MSJ, Ex. 46 at 31:18-21.) The SEC also has presented evidence tending to show that Lonchar understood that the transactions were not separate. Lonchar knew that Sallaberry was involved in the negotiation of both contracts because Lonchar participated in a discussion with Leslie and Sallaberry about the details of the AOL transaction and how to structure it. Lonchar also knew of the simultaneous payment provision, that the price of the license had increased at the eleventh hour to correspond exactly to the price of the advertising purchase, and that the price of the licensing agreement increased without changes to the terms of the license. Defendants argue that the actual terms of the advertising agreement were not set on September 29, 2000 but actually were negotiated later by other Veritas employees. However, viewed in the light most favorable to the SEC, Lonchar's statement still was misleading, as it omitted the fact that Sallaberry was involved in negotiating the terms of both the license and the advertising purchase on September 29, 2000.

iii. The need for advertising

The SEC has not presented evidence that suggests that Lonchar was familiar [*69] with Veritas's advertising needs. Lonchar was the CFO of Veritas and would not necessarily have been aware of Veritas's marketing plans. Though Lonchar may have told the auditors that Veritas had a need for $ 20 million in advertising, the SEC's evidence does not suggest that (1) he did not actually believe the statement, (2) there was no reasonable basis for such a belief, or (3) Lonchar was aware of undisclosed facts tending seriously to undermine the statement's accuracy.

iv. Fair value of the contracts

Lonchar recorded the AOL transaction as a $ 50 million license and a $ 20 million advertising purchase. (SEC's Opp'n to MSJ, Ex. 81.) He also signed a management representation letter that stated that both the license and the advertising purchase were recorded at "fair value" at $ 50 million and $ 20 million, respectively. (SEC's Opp'n to MSJ, Ex. 106 at 2.) Lonchar signed Veritas's Form 10-K for the 2000, and in August 2002, he certified the accuracy of Veritas's financial statements from 2001 and parts of 2002 pursuant to Sarbanes-Oxley. *(See* SEC's Opp'n to MSJ, Exhs. 62, 83, and 94.) The SEC alleges that all of this conduct was misleading.

Lonchar "has held a Certified Public Accountant [*70] license in Idaho, but that license is inactive." (Lonchar's Answer at P 6.) To qualify as a CPA, an individual must pass the Uniform Certified Public Accountant Examination. It is not clear whether the concept of "fair value" was tested at the time Lonchar sat for the examination. In 2006, the Financial Accounting Standards Board ("FASB") published Financial Accounting Standards No. 157 ("FAS 157"), entitled "Fair Value Measurements." FAS 157 attempted to provide a definition for "fair value" and a framework for measuring fair value under GAAP. *See* Statement of Financial Accounting Standards No. 157, P 2 (Fin. Accounting Standards Bd., September 2006). The FASB noted that, "[p]rior to this statement, there were different definitions of fair value and limited guidance for applying those definitions in GAAP." *Id.* The SEC has not presented evidence with respect to Lonchar's understanding of the term "fair value." As discussed above, Veritas initially proposed the license at $ 64 million, (Leslie's MSJ, Ex. L at 6), and the SEC's evidence does not show either that Lonchar believed that $ 50 million was not a "fair" value of the license or that he had reason to doubt that the price was [*71] not "fair." Also, the SEC has not presented evidence with respect to Lonchar's knowledge of Veritas's advertising needs, and thus it cannot demonstrate that Lonchar did not actually believe that the advertising was worth $ 20 million, that he lacked a reasonable basis for such a belief, or that he was aware of undisclosed facts tending seriously to undermine that statement's accuracy.

v. Evidence of recklessness

The SEC presents evidence that suggests that Lonchar was aware of the controversy surrounding these deals. Leslie received an email from Brooks asking that he be "extra cautious" with the revenue recognition of "the recent large transaction" because "a single revenue recognition taint can utterly destroy a stock." (SEC's Opp'n to MSJ, Ex. 32.) On October 5, 2000, Leslie forwarded this email to Lonchar. *(Id.)* In addition, Cherrstrom told Lonchar that unless Veritas could provide support for the fair value of the software license or the advertising purchase, the license would be recorded at $ 30 million with zero value assigned to the advertising. (Cherrstrom Investigative Testimony, SEC's Opp'n to MSJ, Ex. 47 part 1 at 50:23-51-7.) This evidence permits an inference that Lonchar [*72] knew that his statements to the auditors could influence the accounting of the AOL transaction. Given that this was the largest transaction in the history of Veritas, this evidence also permits the inference that the danger of misleading buyers or sellers was so obvious that Lonchar must have been aware of it.

e. Paul Sallaberry

The SEC alleges that Sallaberry misled the Ernst & Young auditors by (1) telling the auditors that the licensing agreement was not conditioned upon the advertising purchase, (2) denying involvement in negotiating the advertising purchase, and (3) representing that the $ 50 million price of the licensing agreement was reasonable.

i. Sallaberry's knowledge of the AOL transaction

As discussed above, the SEC presents evidence that Sallaberry negotiated the price of both the licensing agreement and the advertising purchase. (Leslie Investigative Testimony, SEC Opp'n to MSJ, Ex. 39 at 89:1-13.) Sallaberry already was aware of the proposed $ 30 million license. [18] On September 29, 2000, Sallaberry spoke with Jay Rappaport about a price increase for the license and the advertising purchase. *(Id.* at 89:1-3.) Sallberry communicated these terms to Leslie, including the $ [*73] 50 million price of the licensing agreement and the $ 20 million for advertising. *(Id.* at 89:5-13.) In addition, as discussed above, Sallaberry agreed to a simultaneous payment term that was not included in the written contract. *(See* SEC's Opp'n to MSJ, Ex. 79 (showing Sallaberry's awareness of the simultaneous payment provision) and Lonchar's Reply in Support of Partial SJ, Ex. 15 at 175 (Ernst & Young auditor Cherrstrom stating that he was unaware of the simultaneous payment term, indicating that it was not included in the written contract).) When he was informed that Veritas might offer AOL a $ 100,000 discount if AOL paid before December 1, 2000, Sallaberry insisted that AOL pay in accordance with the simultaneous payment term instead. (SEC's Opp'n to MSJ, Ex. 79.)

18 Sallaberry must have known of the $ 30 million proposal because his approval of a deal at that price was necessary. (Gary Florence Deposition, SEC's Opp'n to MSJ, Ex. 3 at 145:17-21.) An executable agreement for a $ 30 million license already had been provided to AOL before Sallaberry and Rappaport negotiated the price increase. *(See* Laber Investigative Testimony, SEC's Opp'n to MSJ, Ex. 108 at 139:18-21 (Laber testifying [*74] that he physically signed the $ 30 million licensing agreement on September 29, 2000 because he didn't think Veritas would agree to the advertising deal).) In order for Veritas to have provided AOL with an executable contract, Sallaberry must have approved the deal at $ 30 million.

ii. Whether the licensing agreement was conditioned on the advertising agreement

Sallaberry spoke with Ernst & Young auditor David Price. Price provided the following testimony during the SEC's investigation:

A: Well, I indicated before we asked Mr.

> Sallaberry a similar question as we asked Mr. Lonchar and Mr. Cully, was the software sales transaction contingent upon or connected with the advertising arrangement.
>
> Q: And what did Mr. Sallaberry say?
>
> A: He indicated no.

(Price Investigative Testimony, SEC's Opp'n to MSJ, Ex. 46 at 53:17-22.) Sallaberry negotiated the license and the advertising purchase together and agreed to the simultaneous payment provision, supporting an inference that he understood that the agreements were contingent. Defendants dispute the implications of this evidence, but this only creates a dispute of material fact. Viewed in the light most favorable to the SEC, the evidence suggests that [*75] Sallaberry understood that the licensing deal was contingent upon the advertising purchase.

iii. Involvement in the negotiation

As discussed above, the SEC has proffered evidence tending to show that Sallaberry was involved in negotiating at least the price of both the license and the advertising purchase. (Leslie Investigative Testimony, SEC Opp'n to MSJ, Ex. 39 at 89:1-13.) Price has testified as follows:

> Q: [D]id he comment on his role of the negotiations of advertising?
>
> A: No, he did not. He indicated he was not involved.
>
> Q: [H]e made that definitive statement, "I wasn't involved in that negotiation?"
>
> A: In fact, yes. We asked him whether he was involved and he indicated no.
>
> Q: Did he say who was?
>
> A: As I recall, he indicated the marketing department was involved in the transaction.

(Price Investigative Testimony, SEC's Opp'n to MSJ, Ex. 46 at 49:18-50:2.) Price also has testified that "Mr. Sallaberry said that the software license contract was negotiated separately." (Price Deposition, SEC's Opp'n to MSJ, Ex. 37 at 169:17-18.) Sallaberry contends that people in the marketing department were involved in negotiating the actual terms of the advertising that AOL was to offer. While this may [*76] be true, there also is evidence that Sallaberry was involved in negotiating the price of the advertising purchase on September 29, 2000. Viewing the evidence in the light most favorable to the SEC, Sallaberry's statement that he was not involved in the negotiations was misleading.

iv. Fairness of the price

Sallaberry indicated to Ernst & Young that the $ 50 million price of the licensing agreement, which represented a forty-two percent discount of the typical price of the software, was fair. (Sallaberry Investigative Testimony, SEC's Opp'n to MSJ, Ex. 48 at 240:5-11 (Sallaberry discussing his conversation with Ernst & Young, recalling that "we talked about was 42 percent a fair discount").) Sallaberry, who has no training in accounting principles, argues that he believed subjectively that $ 50 million was a fair price for the software license. The evidence suggests that Sallaberry knew that the price of the license had increased without any changes to its terms. (Sallaberry Investigative Testimony, SEC's Opp'n to MSJ, Ex. 48 at 82:10-83:14 (Sallaberry and Rappaport agreed to the $ 20 million advertising purchase, but there were still some "outstanding issues" to work out).) Sallaberry [*77] also knew that Veritas had paid commissions to the sales team on the AOL transaction and that the commissions were based on the $ 30 million price. (Sallaberry Deposition, SEC's Opp'n to MSJ, Ex. 19 at 228:12-13.)

Nonetheless, the SEC has not pointed to evidence that suggests that Sallaberry (1) did not believe that the license was worth $ 50 million, (2) lacked a reasonable basis for such a belief, or (3) was aware of undisclosed facts tending seriously to undermine the statement's accuracy. The $ 50 million price appears reasonable in the context of Veritas's initial offer for the license at $ 64 million. (Leslie's MSJ, Ex. L at 6). Moreover, Sallaberry directed his sales team to collect, prepare, and submit documents to support the $ 50 million purchase price. (Price Investigative Testimony, SEC's Opp'n to MSJ, Ex. 46 at 145.) The SEC has not shown that this documentation contained inaccuracies or misleading statements. While Sallaberry knew that the commissions were paid based on the $ 30 million price, that decision was made by Leslie, (Sallaberry Deposition, SEC's Opp'n to MSJ, Ex. 19 at 229:7-12), and this fact alone is insufficient to support a reasonable inference that Sallaberry [*78] lacked a reasonable basis for his belief or was aware of facts that seriously undermined the accuracy of his statement.

v. Evidence of recklessness

Before September 29, 2000, Sallaberry had experience with deals similar to the AOL transaction. On September 26, 2000, when asked a question regarding an agreement with Disney that included both a license and an advertising purchase, Sallaberry responded that, "[I]'m worried about rev rec [revenue recognition] if we commit to advertising in the contract." (SEC's Opp'n to MSJ, Ex. 21.) When discussing the potential AOL transaction with Leslie and Lonchar before it was signed, Sallaberry asked Lonchar how to structure the deal to "make sure that [he] did it correctly from a revenue recognition perspective, you know, the right way to do a legitimate business deal." (Sallaberry Investigative Testimony, SEC's Opp'n to MSJ, Ex. 48 at 57:3-6.) This evidence permits the inference that Sallaberry knew that revenue recognition for deals of this nature was controversial. If Sallaberry did make misrepresentations to Ernst & Young, the danger of misleading buyers or sellers was so obvious that Sallaberry must have been aware of it. Sallaberry's argument [*79] that he was relying on the advice of others cannot excuse any misstatements that he made personally to the Ernst & Young auditors. Although Sallaberry asserts that he is not familiar with accounting rules, the SEC's evidence suggests that he knew the details of the AOL transaction and recklessly made statements that conflicted with his knowledge of the transaction.

2. Actual knowledge of violations for aiding and abetting liability

In order to prevail on its claims for aiding and abetting, the SEC must show that the Defendants had actual knowledge of the primary violations and their own role in furthering the violations. . While the evidence discussed above may be sufficient to support a finding that Defendants acted with scienter when making certain misrepresentations, the evidence is insufficient to establish that Defendants knew that recording the license at $ 50 million and the advertising purchase at $ 20 million in fact was improper. The accounting rules are undeniably complex, and the SEC has not directed the Court's attention to any evidence showing that Defendants not only knew of the relevant accounting principles but also knew how to apply them [*80] correctly.

3. Knowingly failing to implement a system of internal accounting controls

The SEC asserts that Lonchar knowingly failed to implement a system of internal controls under Exchange Act Section 13(b)(5) and aided and abetted violations of Exchange Act Section 13(b)(2)(B). The SEC has not identified the specific controls that were insufficient or that are needed. *See SEC v. Berry, 580 F. Supp. 2d 911, 924-25 (N.D. Cal. 2008)* (dismissing a claim for internal control violations for not stating what controls were insufficient or circumvented). Moreover, the SEC has not pointed to evidence that could suggest that Lonchar knowingly failed to implement a system of internal controls. While the evidence may show that Lonchar acted recklessly and could have suspected that a system of internal controls was necessary, the evidence does not suggest that Lonchar *knew* that he had failed to implement a system of internal controls. Courts routinely have found that certain sections of Rule 13(b) do not require scienter. *See S.E.C. v. McNulty, 137 F.3d 732, 740 (2d Cir. 1998)*. However, while *McNulty* and the cases cited therein address *17 C.F.R. §§ 240.13b2-1* and *240.13b2-2*, the cases do not address [*81] the plain language of Section 13(b)(5), which requires "knowingly circumvent[ing] or knowingly fail[ing] to implement a system of internal accounting controls." *15 U.S.C.A. § 78m(b)(5)*. Even in the light most favorable to the SEC, the evidence in the record does not support a finding that Lonchar acted knowingly. The SEC's allegation that Lonchar aided and abetted violations of Exchange Act Section 13(b)(2)(B) fails for similar reasons. The SEC has not demonstrated that Lonchar knew of the primary violations.

4. Evidence of scienter is sufficient to support the remaining claims

As discussed above, the SEC's evidence permits the inference that Defendants acted with scienter when making certain misstatements. This same evidence is sufficient to support the SEC's claims for violations of Rule 13b2-2 for making misleading statements to an accountant. Each Defendant knew that the Ernst & Young auditors were engaged in the process of evaluating Veritas's revenue recognition with respect to the AOL transaction, and there is evidence that Defendants recklessly made misstatements to the auditors. These misstatements also are sufficient to support the mental state required by the SEC's claims [*82] under Rule 13b2-1 for falsifying a record. Defendants each had contact with the auditors and were aware that their statements to the auditors could affect the Veritas's revenue recognition records. [19] Finally, the evidence also is sufficient to support a finding of negligence in connection with the SEC's claims under *Section 17(a)(2)* and *(a)(3)*. Because the evidence is sufficient to support a finding that Defendants acted with scienter, it follows that the same evidence would support the conclusion that Defendants acted negligently.

19 To the extent that the SEC also asserts that Defendants' conduct violated Section 13(b)(5), which makes it a violation to "knowingly falsify any book, record, or account", these claims fail. As with the SEC's allegations regarding internal accounting controls, Section 13(b)(5) plainly requires that a defendant act "knowingly". Even in the light most favorable to the SEC, the evidence does not support a finding that Defendants *knew* that their misstatements would result in the falsification of a record. This is a different standard than that in Rule 13b2-1, which at most requires recklessness. *SEC v. Jorissen, 470 F. Supp. 2d 764, 771 (E.D. Mich. 2007)* [*83] (quoting *S.E.C. v. Orr, No. 04-74702, 2006 U.S. Dist. LEXIS 11447, 2006 WL 542986 at *16 (E.D. Mich. Mar. 6, 2006)* (Roberts, J.) for the proposition that "'[p]laintiff must ... show that the defendant acted unreasonably' for liability under Rule 13b2-1").

B. Materiality

"Materiality depends on the significance that a reasonable investor would assign to the withheld or misrepresented information." *U.S. v. Reyes, 577 F.3d 1069, 1075 (9th Cir. 2009)* (citing *Basic Inc. v. Levinson, 485 U.S. 224, 240, 108 S. Ct. 978, 99 L. Ed. 2d 194 (1988))*. "To be material, 'there must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having altered the 'total mix' of information made available.'" *Id.* (quoting *Basic, 485 U.S. at 231-32*). "In a securities fraud action, '[m]ateriality and scienter are both fact-specific issues which should ordinarily be left to the trier of fact,' although 'summary judgment may be granted in appropriate cases.'" *Kaplan v. Rose, 49 F.3d 1363, 1375 (9th Cir. 1994)* (citation omitted). Claims under *Section 17(a)(1)* and *(a)(2)*, Section 10(b)(5) and *Rule 10b-5*, and Rule 13b2-2 explicitly require a showing that the misstatement was material.

Defendants make two arguments as [*84] to why the misstatements were immaterial. First, they contend that the SEC cannot show that the error in the accounting of the AOL transaction would have been important to a reasonable investor's purchasing decisions. Second, they argue that either Ernst & Young's original accounting for the transaction was correct or the misrepresentations did not affect the way in which Ernst & Young originally accounted for the transaction. As an initial matter, the SEC argues that a restatement always is material because "under Generally Accepted Accounting Principles ('GAAP'), a restatement issues only when errors are material." *SEC v. Kelly, 663 F. Supp. 2d 276, 284 (S.D.N.Y. 2009)*. However, information that is quantitatively and qualitatively material to an accountant under GAAP principles is not necessarily information that is important to a reasonable investor.

1. Importance to a reasonable investor

In March 2003, Veritas restated its financials in connection with the AOL transaction. Defendants argue that the effect of the restatement is immaterial as a matter of law. Veritas filed a Form 8-K regarding the restatement which described the following:

. For the year 2000:

. Revenue decreased from [*85] $ 1,207 million to $ 1,190 million (1.4%)

. Net losses increased from $ 620 million to $ 627 million (1.1%)

. For the year 2001:

. Operating expenses decreased from $ 1,812 million to $ 1,799 million (0.7%)

. Net losses decreased from $ 651 million to $ 643 million (1.2%)

. For nine months of 2002:

. Revenue decreased from $ 1,101 million to $ 1,100 million (0.1%)

. Net income, previously reported at $ 107 million, decreased by less than $ 1 million (0.9%).

. "The restatement ha[d] no effect on the Company's cash position"

(Sallaberry's MSJ, Ex. 65 at 4.)

The SEC's accounting expert, Dr. Seidler, provides a decidedly different picture of the effects of the 2003 restatement on Veritas's financials in the fourth quarter of 2000:

. Total revenues decreased $ 19.2 million (five percent)

. Licensing revenues decreased by six percent

. Net losses increased by $ 8.1 million (six percent)

(Seidler report at 14.) Seidler concluded that, from an accounting perspective, the changes were quantitatively material because the effects exceeded the five percent threshold established by the accounting authority Montgomery's Auditing. *(Id.* at 9.) Seidler also concluded that the changes were qualitatively material [*86] because of the circumstances of the restatement, focusing on the allegations that management had misled the auditors. *(Id.* at 7.) It is important to highlight two aspects of Seidler's opinion. First, the opinion speaks only to *accounting* materiality: that is, whether the change in the treatment of the AOL transaction was material to an accountant, not with respect to whether it was important to a *reasonable investor*. Evidence of accounting materiality may be relevant to the question of legal materiality, but is not dispositive. Second, while both the Form 8-K and Seidler's report comment on the effects on the restatement, it is clear that these documents are comparing two different things. The Form 8-K looks at 2000 as a whole, while Seidler only looks to the fourth quarter of that year.

The SEC also offers the expert report of Mr. Davis, who opines on the importance of the restatement to reasonable investors. On November 14, 2002, Veritas disclosed that the SEC had subpoenaed its records related to the AOL transaction. It also disclosed the amounts in question. Based on news articles from November 15, 2002, Davis concluded that there was sufficient information to cause reasonable investors [*87] to conclude that Veritas would restate the AOL transaction. Davis performed an event study and concluded that the restatement of the AOL transaction was material because there was a statistically significant decrease in the share price on November 15, 2002. [20]

20 The November 14, 2002 disclosure was released after the market closed.

Predictably, Defendants' experts characterize the situation differently. Mr. O'Bryan opines on the correctness of the original accounting for the AOL transaction, but he does not appear to offer an opinion on the effect of the restatement to reasonable investors. Mr. Berquist has offered such an opinion. Berquist concludes that the restatement was not material because it did not impact meaningfully Veritas's earnings per share ("EPS") or its ability to exceed the First Call EPS estimate. [21] Berquist states that he considered "Pro Forma EPS," which excludes onetime expenses such as those for acquisitions, restructuring, stock options, and amortization of intangible assets, and found that Veritas's restatement of the AOL transaction had the following effects:

. The 2000 Pro Forma EPS decreased from $ 0.60 to $.059 (1.67%)

. The 2001 Pro Forma EPS increased from [*88] $ 0.67 to $ 0.69 (2.90 %)

. The First Call EPS estimate for Veritas's December 2000 Pro Forma EPS was $ 0.17

. The December 2000 Pro Forma EPS decreased from $ 0.19 to $ 0.18 (5.26%)

(Berquist's report at 7, 9.)

21 First Call is a third-party service that averages and reports the EPS estimates of various sources.

"As a general rule, summary judgment is inappropriate where an expert's testimony supports the nonmoving party's case." *In re Apple Computer Securities Litigation, 886 F.2d 1109, 1116 (9th Cir. 1989)* (citing *Bieghler v. Kleppe, 633 F.2d 531, 534 (9th Cir.1980)*. However, insignificant misstatements are not material as a matter of law. *See Parnes v. Gateway 2000, 122 F.3d 539, 547 (8th Cir. 1997)* (finding that "a reasonable investor, faced with a high-risk/high-yield investment opportunity in a company with a history of very rapid growth, would not have been put off by" a two-percent overstatement of assets); *In re Westinghouse Sec. Litig., 90 F.3d 696, 715 (3d Cir. 1996)* (finding a misstatement of 1.2% of assets for one quarter to be immaterial); *In re Duke Energy Corp. Sec. Litig., 282 F. Supp. 2d 158, 161 (S.D.N.Y. 2003)* (finding a misstatement of 0.3% of total revenues for a two-year [*89] period to be immaterial); *In re Segue Software, Inc. Sec. Litig., 106 F. Supp. 2d 161, 171 (D. Mass. 2000)* (finding a misstatement of 2.6% of the company's sales for the year to be too insignificant and non-systemic to be material); *In re Convergent Technologies Second Half 1984 Securities Litigation*, C-85-20130-SW, 1990 WL 606271, at *10-11 (N.D. Cal. Jan. 10, 1990) (finding a misstatement of less than 1.5% of net operating revenues for the quarter to be immaterial because the company exceeded investor expectations by $ 0.04 per share for the quarter and then recognized a "huge one time loss" of $ 0.28 per share); *Pavlidis v. New England Patriots Football Club, Inc., 675 F.Supp. 688, 692 (D.Mass. 1986)* (finding an increase of less than one percent in the yearly operating revenue to be "trivial" and "immaterial").

Given the specific facts of this transaction, the Court is reluctant to conclude as a matter of law that the 2003 restatement was not material. The SEC and Defendants each have experts to support their positions. At the time, the AOL transaction was the largest transaction in Veritas's history. A misstatement of that transaction by forty percent could be important to a reasonable [*90] investor. The bulk of the transaction affected the fourth quarter of 2000, and reasonable investors often are concerned both with yearly and quarterly results.

2. The original accounting for the AOL transaction

Mr. O'Bryan opines that Ernst & Young's original accounting for the AOL transaction was correct. Dr. Seidler has submitted "opposition" to O'Bryan's report, in which he disagrees with O'Bryan's conclusion. Resolution of the experts' disagreement is best left to the trier of fact. *See In re Apple Computer Securities Litigation, 886 F.2d at 1116*.

Defendants also argue that their statements to Ernst & Young cannot be material because Ernst & Young discredited the alleged misstatements in any event. Ernst & Young noted that Veritas's management had represented that the software licensing agreement was not contingent on the advertising purchase. (SEC's Opp'n to MSJ, Ex. 76 at 2.) However, the auditors also stated that "because of the proximity of execution of both arrangements between the parties, we have considered these two transactions to be linked and part of a single exchange." *(Id.)* Defendants argue that, even if they had told Ernst & Young that the deals were contingent, the [*91] original accounting treatment would not have changed.

In evaluating the AOL deal as a "linked" transaction, Ernst & Young attempted to justify the value of either "leg" of the transaction. If the value of one leg could be justified, Ernst & Young would approve of the value of the other leg as well. (Price Deposition, Lonchar's Mot. for Partial SJ, Ex. 24 at 134:22-135:2.) In this instance, after questioning Defendants in 2001, Ernst & Young initially determined that valuing the license was too difficult because the terms of the license provided AOL with unlimited access to certain Veritas software. (Cherrstrom Deposition, Lonchar's Mot. for Partial SJ, Ex. 4 at 17:8-10.) Instead, Ernst & Young focused on the advertising leg of the transaction. Based on the information provided by Veritas and Defendants, Ernst & Young concluded that $ 20 million appeared to be a fair value of the advertising. In 2002, Ernst & Young became aware that the price of the license had increased by $ 20 million on the day the agreements were signed. Knowing this information, Ernst & Young sought information that would justify that price increase. It concluded that the $ 20 million price increase was not accompanied [*92] by changes to the license that could have justified the increase. (Cherrstrom Investigative Testimony, SEC's Opp'n to MSJ, Ex. 47 at 95:9-16.) Accordingly, Ernst & Young withdrew its support for the original accounting of the AOL transaction.

The evidence permits the inference that the contents of Defendants' alleged misrepresentations were material. A reasonable investor could attach importance to whether or not the license and the advertising purchase were contingent because the answer to that question was at the heart of Ernst & Young's accounting treatment for a $ 50 million transaction. Defendants' argument does not demonstrate that the alleged misstatements were unimportant to reasonable investors, but rather that certain misstatements did not reach reasonable investors.

While the evidence supports an inference that Defendants misrepresented the contingent nature of the AOL transaction, Ernst & Young discredited those statements. When Ernst & Young discredited the alleged misstatements, the contents of the statements did not reach the market or affect the decisions of reasonable investors. Ernst & Young's opinion with respect to the accounting changed not because of its discovery [*93] of Defendants' alleged misrepresentations with respect to the contingent nature of the transactions, but because of its discovery that the price of the license increased by $ 20 million on the day the agreement was signed. While this was important because the license and the advertising purchase were linked transactions, the SEC has not demonstrated that the auditors asked questions regarding the negotiation history when they performed the pre-2002 audits.

A private plaintiff suing under *Rule 10b-5* must demonstrate reliance on the alleged misstatement and loss causation, i.e., that the misstatement is the proximate cause of the injury. In this instance, Defendants' contend that their alleged misstatements were discredited and therefore neither affected the audit nor reached the market. However, the SEC need not show reliance or loss causation. *Gebhart, 595 F.3d at 1041 n.8* ("In a private securities fraud action, the plaintiff generally must prove five elements: (1) a material misrepresentation or omission of fact; (2) scienter; (3) a connection with the purchase or sale of a security; (4) transaction and loss causation; and (5) economic loss. [Citation.] Our focus here is on the elements [*94] that the SEC must establish. The fourth and fifth elements of a private claim are therefore inapplicable."); *see also Stoneridge Inv. Partners, LLC v. Scientific-Atlanta, Inc., 552 U.S. 148, 128 S. Ct. 761, 769-70, 169 L. Ed. 2d 627 (2008)* (while "[n]o member of the investing public had knowledge, either actual or presumed, of respondents' deceptive acts during the relevant times," "[i]t is true that if business operations are used, as alleged here, to affect securities markets, the SEC enforcement power may reach the culpable actors.").

C. Record keeping violations

The SEC alleges that Defendants violated Rule 13b2-1, which provides that "[n]o person shall directly or indirectly, falsify or cause to by falsified, any book, record or account subject to section 13(b)(2)(A) of the Securities Exchange Act." *17 C.F.R. 240.13b2-1*. While the evidence supports an inference that Lonchar and Sallaberry made misstatements to the auditors, it does not support an inference that the alleged misstatements affected Veritas records. Indeed, the only inference supported by the evidence as to Lonchar and Sallaberry is that they made misleading statements with respect to whether the license and the advertising purchase were negotiated [*95] separately or contingent upon each other. As discussed above, Ernst & Young discredited any such representations and treated the transactions as linked. Thus, the alleged misstatements were not incorporated into Veritas's financial records. Any inaccuracies in the original accounting therefore cannot be the result of these misstatements.

Leslie, however, is situated differently. The evidence does support an inference that Leslie acted with scienter when making misstatements that did affect the audit. While all Defendants represented that the license was valued fairly at $ 50 million, only evidence against Leslie supports the inference that he believed that it was not valued fairly. He described the deal as a "gross up" and decided to pay commissions on $ 30 million rather than $ 50 million. In addition, there is evidence in the record that could support an inference that Leslie did not believe that Veritas desired to purchase this magnitude of advertising from AOL. Because the auditors were searching for the fair value of either leg of the AOL transaction, a misstatement regarding the fair value of the license or Veritas's interest in the AOL advertising could have affected the audit [*96] and therefore Veritas's records.

D. Sallaberry's responsibility for the misrepresentations

1. False Statements

Sallaberry argues that he cannot be liable under *Section 17(a)(2)* or *Rule 10b-5* because he did not make a statement in connection with Veritas's public filings or sign the management representation letter connected with Ernst & Young's audit for 2000. Under *Rule 10b-5*, it is unlawful for any person, "by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

> (a) To employ any device, scheme, or artifice to defraud,
>
> (b) To make any untrue statement of a

> material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or
>
> (c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person,blockquotepara>in connection with the purchase or sale of any security."

17 C.F.R. 240.10b-5. Sallaberry rightly concedes that an actor who did not issue a public statement still may be liable if there was "substantial participation or intricate involvement [*97] in the preparation of fraudulent statements . . . even though that participation might not lead to the actor's actual making of the statements." *Howard v. Everex Sys., 228 F.3d 1057, 1061 n.5 (9th Cir. 2000)*. Sallaberry contends that he did not participate substantially in making any statement. In fact, the only *public* statements identified by the SEC cannot support a claim against Lonchar or Sallaberry in any event. The evidence against Lonchar and Sallaberry supports only the inference that they misled the auditors with respect to whether the license and the advertising purchase were separately negotiated or contingent agreements. As discussed above, the auditors rebuffed any such representations, and the public statements and records did not incorporate them.

However, the SEC's claims against Lonchar and Sallaberry are not necessarily predicated on public statements. Instead, the SEC alleges that Lonchar and Sallaberry made misleading statements to Ernst & Young in connection with an audit that was sure to affect the valuation of Veritas shares. As discussed above, the SEC need not demonstrate that any investors relied on the statements or even that the misstatements caused any loss [*98] in particular. If Lonchar or Sallaberry made an untrue statement of material fact in connection with the purchase or sale of a security, they may be liable for a violation of *Rule 10b-5*. The publication of the statement appears to be irrelevant in an SEC enforcement action.

Sallaberry relies on *In re Cylink Secs. Litig., 178 F. Supp. 2d 1077, 1084 (N.D. Cal. 2001)*, in which the court concluded that a defendant who instructed his sales force to solicit a deal for which revenue was incorrectly recognized was not liable because there was no allegation that he was involved in the process of revenue recognition or the issuance of financial statements. The SEC presents evidence that Sallaberry was involved in the process of revenue recognition and had direct contact with outside auditors who were trying to valuate the AOL transaction. The other cases upon which Sallaberry relies are distinguishable. *See In re Gilead Scis. Secs. Litig., No. C 04-0100 SI, 2009 U.S. Dist. LEXIS 95072, 2009 WL 3320492 (N.D. Cal. Oct. 13, 2009)* (ultimately dismissing a complaint because it failed to allege with any specificity how the defendant was substantially involved with the statement and no allegation could support a finding of scienter), [*99] *SEC v. Fraser, 2009 WL 2450508, 2009 U.S. Dist. LEXIS 70198, 2009 WL 2450508, at *8 (D. Ariz. Aug. 11, 2009)* (dismissing a complaint for failing to allege the nature of the defendant's involvement in reviewing and discussing SEC filings, including whether the defendant suggested what the forms should state, or that any such suggestion, if it occurred, was heeded), and *SEC v. Berry, 580 F. Supp. 2d 911, 922 (N.D. Cal. 2008)* (finding that "[t]he SEC's conclusory pleadings that [the defendant] 'reviewed' and 'discussed' various filings is insufficient to plead (with particularity) [the defendant's] role in the purported fraud"). The SEC offers evidence that provides specific details of Sallaberry's participation in the revenue recognition process. *See McGann v. Ernst & Young, 102 F.3d 390, 394 (9th Cir. 1996)* (parenthetically quoting *Anixter v. Home-Stake Prod. Co., 77 F.3d 1215, 1226 (10th Cir. 1996)* for the proposition that accountants may be liable under anti-fraud laws if they "make a false or misleading statement (or omission) that they know or should know will reach potential investors"). The evidence is sufficient to create a genuine issue of material fact with respect to whether Sallaberry or Lonchar acted [*100] with scienter when making misstatements directly to Ernst & Young.

2. Scheme liability

In the alternative, the SEC argues that Sallaberry may be held liable under *Section 17(a)(2)* and *Rule 10b-5* under a scheme liability theory. An actor is liable for participation in a scheme to defraud if the actor "engaged in conduct that had the principal purpose and effect of creating a false appearance of fact in furtherance of the scheme." *Simpson v. AOL Time Warner Inc., 452 F.3d 1040, 1048 (9th Cir. 2006), vacated on other grounds sub nom. Avis Budget Group, Inc. v. Cal. State Teachers' Ret. Sys., 552 U.S. 1162, 128 S.Ct. 1119, 169 L. Ed. 2d 945*

(2008). However, the alleged conduct must be more than a reiteration of the misrepresentations that underlie the misstatement claims. *SEC v. Lucent Techs., Inc., 610 F. Supp. 2d 342, 361 (D.N.J. 2009)* (citation omitted). Here, the SEC must point to evidence that Sallaberry engaged in conduct outside of his interactions with Ernst & Young.

The SEC alleges that Sallaberry engaged in a scheme to inflate the revenue recognition of the AOL transaction. It argues that two of Sallaberry's actions had the principal purpose and effect of creating a false appearance of fact in furtherance of that [*101] scheme. First, in August 2002, the San Jose Mercury News contacted Veritas and asked for comments on the AOL transaction. Sallaberry was aware of this inquiry. (Sallaberry Deposition, SEC's Opp'n to MSJ, Ex. 19 at 287:7-12.) The statement given to the San Jose Mercury News stated that: "Unlike some companies, VERITAS does not engage in 'swap' or 'barter' transactions. In all of the transactions you allude to, the revenue for VERITAS was paid in cash and the pricing to customers was on normal commercial terms." (SEC's Opp'n to MSJ, Ex. 87 at VAOL 0002082.) Sallaberry testified that he was familiar with the term "barter transaction" and defined it as a transaction in which "you are selling something to someone and when they're buying something from you." (Sallaberry Investigative Testimony, SEC's Opp'n to MSJ, Ex. 48 at 59:24-25.) Sallaberry testified that he was instructed by Lonchar to make two separate contracts and that each party should pay cash. (Sallaberry Investigative Testimony, SEC Opp'n to MSJ, Ex. 48 at 66:1-10.) The SEC has not presented evidence with respect to the "normal commercial terms" for similar licenses of Veritas software. Accordingly, there is insufficient evidence [*102] in the record to support an inference that Sallaberry's statement to the San Jose Mercury News was a misrepresentation of the transaction.

In August 2002, Veritas launched an internal review of the AOL transaction in light of the newly-enacted Sarbanes-Oxley regulations. Sallaberry spoke with William Kelly ("Kelly"), a lawyer with Veritas's outside counsel at Davis Polk & Wardwell. Kelly recalls that:

> [H]e indicated that he was aware that the, you know, the transaction terms had changed at the end, that they had changed as a result of a conversation that had happened with Mark Leslie and not with him, and that he was not directly involved in the discussion with AOL. And so, he basically just said he didn't know what happened in the conversation.

(Kelly Investigative Testimony, SEC's Opp'n to MSJ, Ex. 42 at 120:18-24.) Sallaberry's statement to Kelly appears to be a misrepresentation. Leslie was involved in the conversation with AOL, but, according to both men, so was Sallaberry. A fact finder could infer that the principal purpose of Sallaberry's statement to Kelly was to create a false impression of the AOL transaction in furtherance of the misstatements made to Ernst & [*103] Young in 2001.

E. Application of the time bar of *28 U.S.C. § 2462* to the SEC's prayer for relief

Leslie and Sallaberry argue that the SEC's request for civil monetary penalties and application of the director and officer bar are untimely pursuant to *28 U.S.C. § 2462*. This Court previously concluded that "*§ 2462* does apply to SEC actions." *Leslie, 2008 U.S. Dist. LEXIS 79790, 2008 WL 3876169 at *8* (citing *28 U.S.C. § 2462*). "An action seeking civil penalties under *§ 2462* 'shall not be entertained unless commenced within five years from the date when the claim first accrued.'" *Id.* "Under *§ 2462*, a claim accrues on the date that a defendant allegedly violated the statute and not on the date plaintiff discovered, or should have discovered, the alleged violation." *2008 U.S. Dist. LEXIS 79790, [WL] at *9* (citing to *FEC v. Williams, 104 F.3d 237, 240 (9th Cir 1996))*.

1. Civil penalties

The SEC nonetheless argues that civil penalties are not time-barred, for two reasons. First, it contends that it brought its action within five years of the last actions taken by Leslie and Sallaberry in furtherance of the fraudulent scheme. Second, it claims that the statute of limitations is tolled by fraudulent concealment on the part of Leslie and Sallaberry.

a. Fraudulent [*104] **scheme**

The SEC argues that Leslie and Sallaberry engaged in a fraudulent scheme to inflate the share price of Veritas. The Court ruled previously that "the latest unlawful act alleged in the complaint with respect to the AOL transaction occurred in 2000 and 2001, when

Veritas initially booked the transaction and when it first published financial statements reflecting the improperly booked transactions. Later financials reflecting the improperly booked transactions are simply a continuing ill-effect of the initial alleged violation and do not constitute separate violations." *Leslie, 2008 U.S. Dist. LEXIS 79790, 2008 WL 3876169 at *9*. The SEC contends that Leslie's latest unlawful acts actually are his sales of Veritas stock between February 14, 2001 and July 15, 2002. Similarly, the SEC contends that Sallaberry's latest unlawful acts are his stock sales between May 2, 2001 and February 13, 2002. Both allegations are included in the SEC's amended complaint. Because Sallaberry entered into to a seven-month tolling agreement with the SEC, the SEC argues that its original complaint filed on July 2, 2007 was filed within the five-year statute of limitations.

The SEC relies upon *SEC v. Kelly, 663 F.Supp.2d 276, 287-88 (S.D.N.Y. 2009),* [*105] which discusses the "continuing violation doctrine." That doctrine applies when "a violation, occurring outside of the limitations period, is so closely related to other violations, not time-barred, as to be viewed as part of a continuing practice such that recovery can be had for all violations." *Id.* (internal citations omitted). However, the application of the doctrine to *Section 2462* has been questioned. *Leslie, 2008 U.S. Dist. LEXIS 79790, 2008 WL 3876169 at *9 n.14* (citing *SEC v. Jones, No. 05 Civ. 7044(RCC), 2006 U.S. Dist. LEXIS 22800, 2006 WL 1084276, at *4 (S.D.N.Y. April 25, 2006)*. To the extent that the doctrine applies, "it may not be predicated on the continuing ill-effects of the original violation; rather, it requires continued unlawful acts." *Leslie, 2008 U.S. Dist. LEXIS 79790, 2008 WL 3876169 at *9*. Leslie and Sallaberry argue that any artificial inflation in stock price in 2002 was merely the continuing ill-effect of the original violations that accrued in 2001.

While the inflation of the stock price may have been a continuing effect of any original violations, the issue is whether subsequent sale of stock is a new violation, occurring outside the limitations period, that is closely tied with the original violations. Under any scheme to inflate stock [*106] price, actually selling stock would appear to be the ultimate goal and thus closely tied to the original violation. Arguably, the sale of stock at an artificially inflated price *adds* to any preexisting ill-effect in that it injures the new purchasers of the stock who paid the artificially inflated price. However, selling stock on the market is not a face-to-face transaction, and the new purchaser would have been injured even if Leslie and Sallaberry had not sold their stock. The new purchasers likely would have purchased someone else's stock for the same price on the open market. Any purchase while the share price was inflated artificially thus is nothing more than the continuing ill-effect of the original violations.

b. Tolling on the basis of fraudulent concealment

The SEC directs the Court's attention to *SEC v. Kearns, 691 F. Supp.2d 601, 613 (D.N.J. 2010)* (following the Seventh Circuit and purportedly the Ninth Circuit to hold that "claims bound by the limitations period in *§ 2462* but sounding in fraud are equitably tolled until the date of discovery, so long as the SEC pursued its claim with due diligence"). In *Williams, 104 F.3d at 240*, the Ninth Circuit followed *3M Co. v. Browner, 17 F.3d 1453, 1461, 305 U.S. App. D.C. 100 (D.C. Cir.1994)* [*107] in rejecting the "discovery rule," an approach in which claims for relief under *28 U.S.C. § 2462* begin to accrue only when the plaintiff knows or has reason to know of the injury that is the basis of the action. [22] However, the Ninth Circuit also held that the period may be equitably tolled when three conditions are met: "fraudulent conduct by the defendant resulting in concealment of the operative facts, failure of the plaintiff to discover the operative facts that are the basis of its cause of action within the limitations period, and due diligence by the plaintiff until discovery of those facts." *Id. at 240-41*. The Court does not read *Williams* as providing for tolling of the limitations period whenever a claim sounds in fraud. The Court declines to follow *Kearns* to the extent that it is inconsistent with Ninth Circuit precedent.

22 The Court recognizes that *Williams* and *Browner* did not involve fraud under securities laws. However, this Court and others have found that the reasoning of *Browner* applies in securities cases. *See Leslie, 2008 U.S. Dist. LEXIS 79790, 2008 WL 3876169 at *9 n.13* (concluding that the discovery rule is "unworkable, outside the language of the statue, inconsistent with judicial interpretations [*108] of *§ 2462* . . . and incompatible with the functions served by the statue of limitations in penalty cases.") (quoting *Browner, 17 F.3d at 1460*).

"The Commission may prove the concealment element by demonstrating 'either that [Defendants] took affirmative steps to prevent [discovery of the fraud] or that the wrong itself was of such a nature as to be self-concealing.'" *SEC v. Jones, 476 F. Supp. 2d 374, 382 (S.D.N.Y. 2007)* (citing *New York v. Hendrickson Bros., Inc., 840 F.2d 1065, 1083 (2d Cir. 1988)* (marks in the original). Though the issue was raised in Leslie's and Sallaberry's moving papers, the SEC's opposition papers make no attempt to argue that the fraud was self-concealing. Instead, it contends that Leslie and Sallaberry took affirmative steps to prevent the discovery of the fraud. In particular, the SEC alleges that both Leslie and Sallaberry acted to "conceal the AOL transaction and its fraudulent nature" from the San Jose Mercury News in August 2002. It also alleges that Sallaberry took affirmative steps in August 2002 to conceal the fraud by misleading Veritas's outside counsel, Kelly, who was conducting an internal review of the AOL transaction.

With respect to the allegations [*109] involving the San Jose Mercury News, as discussed above, the allegations against Sallaberry are insufficient to create a material dispute as to whether Sallaberry attempted to mislead the San Jose Mercury News. In addition, the SEC's opposition is entirely devoid of factual allegations that Leslie actually misled the San Jose Mercury News. With respect to the allegations involving Kelly, Sallaberry points out that equitable tolling in the Ninth Circuit requires "fraudulent conduct by the defendant *resulting* in concealment of the operative facts." *Williams, 104 F.3d at 240* (emphasis added). Sallaberry contends that none of his actions actually resulted in the concealment of operative facts. It was the price change that was the key piece of information to the auditors, and Kelly testified that he knew of the price change, irrespective of representations by Sallaberry. *(See* Kelly Investigative Testimony, SEC's Opp'n to MSJ, Ex. 42 at 124:15-125:1) (describing that Lonchar told him that the price moved from $ 30 million to $ 50 million).)

2. The director and officer bar

"The Ninth Circuit has not addressed the point of whether a director and officer bar constitutes a penalty for purposes [*110] of *section 2462*" but "the weight of authority [ ] holds either that (1) injunctive relief such as a director and officer bar is equitable and not subject to any statute of limitations, [citations], or (2) that the question is one for decision on a developed record, based upon whether the evidence indicates that the relief is necessary to prevent future wrongdoing, rather than merely to punish the defendant [citations]." *Leslie, 2008 U.S. Dist. LEXIS 69540, 2008 WL 4183939 at *3*. In its previous ruling, the Court was "convinced that the second approach -- which turns on a case-specific inquiry into the nature of the requested injunctive relief -- is the wiser one." *Id.* Under that approach, the determination of whether the director and officer bar is equitable or punitive "turns on (1) the likelihood of recurrence of violations, and (2) the possible collateral consequences of issuing an injunction." *Id.*

Leslie and Sallaberry argue that the likelihood of recurrence is low. Leslie retired as CEO of Veritas on December 31, 2000 and resigned from the board of directors on May 31, 2004. Leslie subsequently was named as a defendant in a Brocade shareholder derivative suit, but the claims against him were dismissed. Otherwise, [*111] Leslie has not been accused of wrongdoing apart from the present action. He continues to serve as a director of various companies. Sallaberry contends that, outside of the instant allegations, he has never been involved in questionable conduct and that his twenty-five year sales record otherwise is unblemished.

Both Leslie and Sallaberry also argue that the possible collateral consequences of an injunction are high. Leslie contends that a director and officer bar would stigmatize him and affect his ability to both pursue professional opportunities and charitable and philanthropic endeavors. Sallaberry claims that an injunction would stigmatize him and impair his ability to work with companies in Silicon Valley. Relying on *SEC v. First Pacific Bancorp, 142 F.3d 1186, 1194 (9th Cir. 1998)*, the SEC contends that the court should not consider the effects of the bar on a defendant's charitable and philanthropic endeavors. However, the Ninth Circuit's analysis in that case appears to be highly fact-driven and is not a categorical ban on considering such activities.

The SEC does not dispute the factual showing offered by Leslie and Sallaberry, instead citing to [*112] *SEC v. Mercury Interactive, No. C 07-2822 JF (RS), 2008 U.S. Dist. LEXIS 107706, 2008 WL 4544443, at *4 (N.D. Cal. Sept. 30, 2008)*, a case in which this Court declined a motion to dismiss the SEC's request for a director and officer bar. However, *Mercury Interactive* was decided on a motion to dismiss, when the factual record had not been developed. The instant case is in an entirely different posture, and the Court does have the benefit of a fully-developed record. As this Court noted previously, "the question is one for decision on a developed record, based upon whether the evidence indicates that the relief is necessary to prevent future wrongdoing, rather than merely to punish the defendant." *Leslie, 2008 U.S. Dist. LEXIS 69540, 2008 WL 4183939 at *3*. The SEC's assertion, in a footnote, that "such a review should wait until trial, as there are genuine issues of material fact" is wholly insufficient to withstand Leslie's and Sallaberry's motions for summary judgment on this point. Accordingly, the Court determines that in this case the director and officer bar would be a penalty.

F. Disgorgement

"Under certain limited circumstances a district court may issue summary judgment on its own motion." *Portsmouth Square, Inc. v. Shareholders Protective Comm., 770 F.2d 866, 869 (9th Cir. 1985)*. [*113] Most commonly, *"[s]ua sponte* summary judgment is appropriate where one party moves for summary judgment and, after the hearing, it appears from all the evidence presented that there is no genuine issue of material fact and the non-moving party is entitled to judgment as a matter of law." *Id.* (citing *Cool Fuel, Inc. v. Connett, 685 F.2d 309, 311 (9th Cir. 1982))*. A district court also may grant summary judgment *sua sponte* in other situations, such as in the context of a final pretrial conference:

> If the pretrial conference discloses that no material facts are in dispute and that the undisputed facts entitle one of the parties to judgment as a matter of law, a summary disposition of the case conserves scarce judicial resources. The court need not await a formal motion, or proceed to trial, under those circumstances.

Id. In this instance, the parties have engaged in voluminous discovery, Defendants' moving papers challenge the fundamental aspects of the SEC's claims against them, and the parties appear to have submitted all of the relevant evidence they are capable of mustering.

Where a district court grants summary judgment in the absence of a formal motion, the party against whom judgment [*114] is entered is "entitled to reasonable notice that the sufficiency of his or her claim will be in issue." *Id.* (citing *Townsend v. Columbia Operations, 667 F.2d at 849*; *Portland Retail Druggists Assoc. v. Kaiser Foundation Health Plan, 662 F.2d 641, 645 (9th Cir. 1981))*. "Reasonable notice implies adequate time to develop the facts on which the litigant will depend to oppose summary judgment, *id.* (citing *Portland Retail, 662 F.2d at 645*), and "the party against whom judgment was entered [must have] had a full and fair opportunity to develop and present facts and legal arguments in support of its position" *Id.* (citing *Cool Fuel, 685 F.2d at 312*). While the instant motions do not address specifically the SEC's prayer for disgorgement, resolving the issues that *are* raised in the instant motions also resolves the SEC's request for disgorgement with respect to certain Defendants. Discovery closed on December 16, 2009, and the SEC has disputed vigorously the arguments raised by Defendants. Accordingly, the Court will address *sua sponte* the SEC's request for disgorgement.

"The district court has broad equity powers to order the disgorgement of 'ill-gotten gains' obtained through the violation [*115] of the securities laws." *First Pac. Bancorp, 142 F.3d at 1191* (citing *SEC v. Clark, 915 F.2d 439 (9th Cir. 1990))*. "Disgorgement is designed to deprive a wrongdoer of unjust enrichment, and to deter others from violating securities laws by making violations unprofitable." *Id.* (citing *Hateley v. SEC, 8 F.3d 653, 655 (9th Cir. 1993)*; *SEC v. Rind, 991 F.2d 1486, 1491 (9th Cir. 1993))*. As discussed above, even if the SEC demonstrates that Defendants violated securities laws in connection with their statements to the Ernst & Young auditors, the SEC has not presented evidence that supports an inference that Lonchar or Sallaberry improperly affected the audit. The evidence supports only an inference that Lonchar and Sallaberry misrepresented the contingent nature of the AOL transaction. Despite the alleged misrepresentations, Ernst & Young treated the transactions as linked. To the extent that the original accounting was incorrect and improperly inflated Veritas's share value, this was a result of Ernst & Young's failure to ask Lonchar and Sallaberry questions about the negotiation history and not the result of misrepresentations with respect to whether the transactions were linked. Because [*116] their conduct was not the cause of the inflation in the value of Veritas shares, Lonchar and Sallaberry could not have received any unjust enrichment as a result of that inflation in share value. The amount ordered to be disgorged at least must be a reasonable approximation of the profits causally connected with the violation. *First Pac. Bancorp, 142*

F.3d at 1192 n.6 (citing *First Jersey, 101 F.3d at 1475*). Because there is no evidence that Lonchar or Sallaberry have received profits in connection with their alleged misrepresentations, disgorgement is inappropriate.

Again, however, Leslie is situated differently. The evidence permits the inference that Leslie acted with scienter when providing misstatements regarding the fair value of the license and Veritas's need for the AOL advertising. The auditors were searching for the fair value of either leg of the AOL transaction, and it is conceivable that the outcome of the audit was affected by either of these misstatements. If the error in the original accounting resulted in an improper inflation of Veritas's share value, Leslie may have been unjustly enriched as a result.

V. DISPOSITION

Good cause therefor appearing:

(1) Defendants' motion [*117] to sever will be denied;

(2) Defendants' motion to exclude Dr. Seidler's testimony will be granted in part and denied in part. Seidler may testify at trial regarding accounting materiality, but not at to legal concepts and case law, statutes, or whether specific conduct was fraudulent, intentional, or misleading;

(3) Sallaberry's motion to exclude Davis's testimony will be denied. Lonchar's motion to exclude portions of Davis's report will be granted. Davis may testify at trial regarding the 2003 restatement but not the 2004 restatement;

(4) Defendants' motions for summary judgment and partial summary judgment will be granted in part and denied in part. The motions will be granted with respect to the SEC's third claim for relief against Lonchar and Sallaberry (record-keeping violations under Rule 13b2-1), its fourth claim for relief with against Lonchar (internal control violations under Section 13(b)(5)), and its sixth claim for relief against all Defendants (aiding and abetting reporting violations of Exchange Act *§§ 13(a)* and *13(b)(2)(A)* and Exchange Act *Rules 12b-20*, *13a-1*, *13a-11*, *13a-13* and 13b2-1). Leslie's and Sallaberry's motions related to the SEC's prayer for civil penalties [*118] and the director and officer bar also will be granted; and

(5) Summary judgment is granted in favor of Lonchar and Sallaberry with respect to the SEC's prayer for disgorgement.

IT IS SO ORDERED

DATED: 7/29/2010

/s/ Jeremy Fogel

JEREMY FOGEL

United States District Judge

EXHIBIT 7

H
Only the Westlaw citation is currently available.

United States District Court,
C.D. California.
TICKETMASTER CORP.
v.
TICKETS.COM, INC.
No. CV 99-07654 HLH (VBKx).

Feb. 10, 2003.

Named Expert: Mark A. Lemley
Steven E. Sletten (Gibson, Dunn & Crutcher, LLP), Robert E. Cooper, Joseph M. Freeman, Robert H. Platt (Manatt, Phelps & Phillips, LLP), Mark S. Lee , Chad S. Hummel, for Plaintiffs.

William Taylor (Brobeck, Phleger & Harrison), Howard Holderness, James L. Miller, Heather B. Nolan, for Defendants.

PROCEEDINGS: TICKETMASTER'S NOTICE OF MOTION AND MOTION TO EXCLUDE EXPERT TESTIMONY OF MARK A. LEMLEY, FILED 1/13/03

HARRY L. HUPP, District Judge.

***1** Arlene Chavez, Deputy Clerk.

Cynthia L. Mizell, Court Recorder.

ORDER (also, if applicable, findings and memorandum opinion):

The motion of plaintiff Ticketmaster Corporation (hereafter TM) to exclude on *Daubert* grounds the expert testimony of Professor Mark A. Lemley (hereafter Lemley) on behalf of defendant Tickets.Com (hereafter TX) is denied, subject to the exceptions set forth below.

The essence of TM's motion is that Lemley cannot testify on the workings of the internet because he is not a technically trained computer expert, but is, instead, a mere law professor. Further, the objection is that certain of his opinions are now moot (in view of the dismissal of certain of plaintiff's claims) and that there are certain legal opinions contained in Lemley's report which are in the sole province of the court, not that of an expert witness.

Lemley has expressed certain opinions as to the possibility of confusion from TX using factual material derived from the TM web pages. However, the recent dismissal of the Lanham Act claims makes such opinions irrelevant because of mootness and will be excluded from Lemley's testimony. Likewise, any other items solely directed toward the dismissed claims will, of course, be excluded.

Lemley has also expressed certain legal opinions in his statement. Those items identified as legal opinions will be excluded as being within the sole province of the court. The court does not mean that Lemley is incompetent to express such opinions. Indeed, he may be more competent to express them than is the court. However, in our system, the sole source of the law for the jury is the judge, not the expert witness. For example, Lemley notes that in the course of acquiring factual material from the TM internal web pages, the “spider” program momentarily takes a “copy” of the TM interior web page onto the TX computer. Lemley explains how and why this is done in the process of obtaining facts from the TM interior web page. He also expresses the legal opinions that the factual material is not subject to copyright protection and that the momentary copying is “fair use” of taking the copy in order to obtain the non-protected facts. The description of how the process works is within the expertise of Lemley. The opinion that factual material is not protected and that the momentary copy is “fair use” (as expressed preliminarily by the court in connection with the preliminary injunction motion) is for the court and may not be stated by Professor Lemley to the jury, no matter how capable he is of expressing it to the court if he were counsel in the case. There are numerous such legal opinions contained in Lemley's statement, and they will be excluded by the court from testimony of the witness. The court requests that Professor Lemley and counsel for TX do a preliminary job of removing these legal conclusions before pretrial and serve the result to plaintiff.

The balance of the motion is denied. Lemley has shown extensive study and research into the operation of the internet. His voluminous publications on the subject in journals of high repute show his background and the impressive extent of his knowledge of how the internet works and the issues regarding the working of various aspects of the internet. One does not have to be a computer expert to have gained the knowledge from a different perspective than plaintiff's experts of how the various techniques used by the parties work. Thus, Lemley has the background and experience to describe how information is retrieved by one computer from the web page of another, how the URL works, how to use the URL to gain access to a web page, how linking is used to ease the work of transferring from one web page to another, the protocols used to construct web addresses, the difference between static and dynamic web pages and the problems connected with each, how dynamic web pages are constructed, modified, and accessed, how spiders work and retrieve information from publically available web sites, how security functions can work, how conditions of access and their various forms can be used, including the passive warning versus the affirmative key stroke to denote acceptance of conditions, the use and technique of “deep” linking to interior web pages, and how the same is used by search engines, the difference between purely factual information and the method of expression of the same, and the like. While Lemley has opinions on the legal effect of these facts, which he may not express, he shows that he has the experience and background to describe what is taking place in terms understandable to a jury (or even to a judge).

***2** Accordingly, Professor Lemley's years of background and experience with the internet qualify him to describe the workings of the items at issue in this case whether or not he could actually write the computer program for a spider, which is not what the case is about in any event.

C.D.Cal.,2003.
Ticketmaster Corp. v. Tickets.com, Inc.
Not Reported in F.Supp.2d, 2003 WL 25781901 (C.D.Cal.)

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