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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

BEFORE THE HONORABLE PHYLLIS J. HAMILTON, JUDGE

DAVISON DESIGN & DEVELOPMENT) INC., ET AL., CERTIFIED COPY PLAINTIFFS,) NO. C-11-2970 PJH VS. WEDNESDAY, SEPTEMBER 12, 2012 CATHY RILEY, OAKLAND, CALIFORNIA DEFENDANT. AND RELATED CROSS-ACTION

REPORTER'S TRANSCRIPT OF PROCEEDINGS

APPEARANCES:

GOLDEN GATE UNIVERSITY FOR PLAINTIFFS:

536 MISSION STREET

SAN FRANCISCO, CALIFORNIA 94105

BY: LEEOR NETA, ASSISTANT

DIRECTOR FOR PUBLIC INTEREST PROGRAMS

FOR DEFENDANT

DANIEL BALSAM, ESQUIRE 2912 DIAMOND STREET, STE. 218 CATHERINE RILEY: SAN FRANCISCO, CALIFORNIA 94131

FOR THIRD PARTY

DEFENDANT & CROSS
COMPLAINANT:

LKP GLOBAL LAW, LLP

1901 AVENUE OF THE STARS, STE. 480

LOS ANGELES, CALIFORNIA 90067

LOS ANGELES, CALIFORNIA 90067 COMPLAINANT:

BY: VICTOR FU, ESQUIRE

REPORTED BY: DIANE E. SKILLMAN, CSR 4909, RPR, FCRR

OFFICIAL COURT REPORTER

WEDNESDAY, SEPTEMBER 12, 2012 1 9:11 A.M. 2 PROCEEDINGS 3 THE CLERK: CALLING 11-2970 DAVISON DESIGN AND DEVELOPMENT VERSUS RILEY. 4 5 APPEARANCES. MR. BALSAM: GOOD MORNING, YOUR HONOR. 6 7 DANIEL BALSAM REPRESENTING CATHY RILEY AS COUNTERCLAIMANT. 8 THE COURT: GOOD MORNING. 9 MR. NETA: GOOD MORNING, YOUR HONOR. 10 LEEOR NETA REPRESENTING PLAINTIFFS AND COUNTERDEFENDANTS 11 DAVISON DESIGN. THE COURT: GOOD MORNING. 12 13 MR. FU: GOOD MORNING, YOUR HONOR. VICTOR FU APPEARING ON BEHALF OF THIRD-PARTY DEFENDANT 14 15 SPARK NETWORKS, LLC. 16 THE COURT: WE WILL TAKE THE MOTION AS TO THE SECOND 17 AMENDED COUNTERCLAIMS FIRST, AND THEN WE WILL DEAL WITH YOUR 18 MOTION SECOND. 19 THE MATTER IS ON FOR THE MOTION TO DISMISS THE SECOND 20 AMENDED COUNTERCLAIMS OF MS. RILEY. I HAVE READ THE PAPERS. 21 WITH REGARD TO THE CAN-SPAM ACT AND THE PREEMPTION AND THE 22 EXCEPTION, I AM PREPARED TO RULE ON IT. HOWEVER, IF YOU WOULD 23 LIKE TO SAY SOMETHING BEFORE I DO SO, YOU MAY HAVE AN 24 OPPORTUNITY. JUST KEEP YOUR REMARKS SHORT TODAY. I HAVE A 25 LOT OF MATTERS ON THIS MORNING.

MR. NETA: THAT'S FINE, YOUR HONOR. GO AHEAD. 1 2 THE COURT: DID YOU WANT TO SAY ANYTHING? 3 MR. NETA: NO, THAT'S ALL RIGHT. I UNDERSTAND YOU HAVE A LOT GOING ON TODAY. 4 5 MR. BALSAM: NOT UNTIL WE HEAR THE RULING I GUESS. THE COURT: NOT UNTIL YOU HEAR THE RULING. 6 7 YOU DON'T WANT TO SAY ANYTHING? THIS IS -- I'M LIKELY TO 8 DECIDE IT AGAINST YOUR CLIENT. 9 MR. BALSAM: OKAY. THE COURT: SO, DID YOU WANT TO SAY ANYTHING ABOUT IT 10 11 BEFORE I GIVE YOU THE RULING? I SIMPLY DON'T -- I DON'T AGREE 12 WITH YOUR POSITION AS TO THE PREEMPTION PROVISION. 13 MR. BALSAM: OKAY. IN THAT CASE, I DO HAVE SOME THINGS TO SAY, YOUR HONOR. 14 15 SPIRE VISION PLAINTIFFS -- COUNTERDEFENDANTS, IN THIS 16 CASE, IGNORE HALF A DOZEN ARGUMENTS FROM THE OPPOSITION. THEY 17 IGNORE THE FACT THAT THE CAN-SPAM ACT USES THE WORD "FALSITY" IN ONE POSITION AND THE WORD "FRAUD" TWO LINES LATER. 18 19 THEY IGNORE THE FACT THAT THE STATUTE CONSTANTLY REFERS TO 20 "OR DECEPTION" SO THAT EVEN IF FRAUD MEANT FALSITY, YOU STILL 21 HAVE THE OR DECEPTION. THEY CONSTANTLY MISOUOTE RILEY'S POSITION ON JUST ABOUT EVERYTHING ON THE MERITS. 22 23 THEY CLAIM THAT RILEY OVERRELIES ON PRE-GORDON CASES. 24 IT'S SIMPLY WRONG. WE MENTION TWO PRE-GORDON CASES, TWO 25

POST-GORDON CASES. AND, IN PARTICULAR, THE WONG VERSUS

REUNION.COM CASE IN WHICH THE COURT ACTUALLY REVERSED ITS

POSITION ON PREEMPTION EXPRESSLY AS A RESULT OF THE GORDON

RULING.

THE SUBSCRIBER BASE CASE SAID IT THE BEST. THE GORDON

COURT RULED THAT THE WASHINGTON LAW WAS PREEMPTED NOT BECAUSE

OF THE FALSITY VERSUS FRAUD ISSUE, BUT ONLY BECAUSE

WASHINGTON'S STATUTE WAS TOO BROAD. IT REACHED EVEN TO

NONDECEPTIVE PRACTICES. THAT'S THE REASON WHY RILEY BRINGS

HER COUNTERCLAIMS UNDER THE POINT 5 SUBSECTION, WHICH IS

LIMITED TO FALSITY AND DECEPTION AS OPPOSED TO THE POINT 2

SUBSECTION WHICH TRIED TO PROHIBIT SPAM ALTOGETHER.

SPIRE VISION IS SIMPLY WRONG THAT HER CLAIMS ARE BASELESS AND THAT CALIFORNIA COURTS WILL NOT AWARD DAMAGES IN SUCH CASES. THE BALSAM VERSUS TRANCOS CASE FROM THE FIRST DISTRICT EARLIER THIS YEAR, WHICH I AM INTIMATELY FAMILIAR WITH, RULED EXACTLY THAT. THAT COURT RULED THAT THE "FROM" MEANS AND THE DOMAIN REGISTRATIONS AT ISSUE HERE ARE -- THEY ARE UNLAWFUL. AND THE COURT DID AWARD A THOUSAND DOLLARS PER SPAM.

THAT'S MY STATEMENT.

THE COURT: DID YOU WISH TO RESPOND?

MR. NETA: NOT REALLY, YOUR HONOR. BUT I WILL

BRIEFLY SAY THAT THE ONLY REASONABLE INTERPRETATION OF THE

STATUTE IS ONE THAT PROVIDES AN EXEMPTION ONLY FOR ACTIONS

THAT FALL WITHIN FRAUD DESPITE SYLLOGISMS ABOUT LINGUISTICALLY

WHAT THE LANGUAGE OF THE STATUTE SAYS ITSELF. I THINK THAT'S

1 THE ONLY REASONABLE INTERPRETATION. 2 AT THIS STAGE, COUNTERCLAIMANTS NEED TO ALLEGE FACTS NOT 3 SPECULATION THAT ENTITLES THEM TO RELIEF, AND THEY HAVEN'T DONE THAT. 4 5 THE COURT: DO YOU THINK THAT GORDON IS DISPOSITIVE OF THE ISSUE? 6 7 MR. NETA: I DO. GORDON -- GORDON AND THE HOST OF 8 CASES, INCLUDING TRANCOS, ALL SUGGEST THAT IT HAS TO BE AN 9 ACTION THAT SOUNDS IN TORT IN ORDER TO BE ACCEPTED. 10 AND IN THAT CASE WHERE THE PLAINTIFF, MR. BALSAM HIMSELF, 11 WAS NOT ABLE TO IDENTIFY THE SENDERS OF THOSE E-MAILS THROUGH 12 REASONABLE MEANS IS WHOLLY DIFFERENT. THE TRANCOS CASE ON 13 THAT FACT ALONE IS WHOLLY DIFFERENT FROM OURS IN WHICH MR. BALSAM AND HIS CLIENT WERE ABLE TO IDENTIFY ALL OF THE 14 15 SENDERS AND THEY ALL CAME FORWARD, THESE SUPPOSEDLY 16 NONEXISTENT SENDERS. 17 THE COURT: THEY ALL SUBMITTED DEMAND LETTERS, CEASE AND DESIST LETTERS, OR SOMETHING OF THAT NATURE --18 19 MR. NETA: EXACTLY. 20 THE COURT: -- TO EACH OF THE --21 MR. NETA: WITHOUT ANY DISCOVERY. MR. BALSAM AND HIS 22 CLIENT WAS ABLE TO IDENTIFY AND LOCATE ALL OF THE PARTICIPANTS 23 IN THIS DISPUTE. 24 MR. BALSAM: YOUR HONOR --

THE COURT: PLEASE DON'T INTERRUPT.

1 MR. BALSAM: SORRY.

2 THE COURT: OKAY.

WITH REGARD TO THE -- DO YOU SEE ANY DISTINCTION, THOUGH,

BETWEEN THE DISPUTES -- THE DISPUTE RAISED WITH RESPECT TO THE

FROM LINE AS OPPOSED TO THE SUBJECT LINE? DO YOU SEE ANY

DIFFERENCE BETWEEN HOW THE COURT SHOULD ANALYZE THOSE?

MR. NETA: I DON'T THINK THAT THAT'S A RELEVANT

DISTINCTION AT ALL, YOUR HONOR. THE QUESTION IS WHETHER OR

NOT THE E-MAIL IS FRAUDULENT, INTENTIONALLY DECEPTIVE,

SOMETHING THAT SOUNDS IN TORT.

AS THE CASES SAID, ALL OF THEM, INCLUDING THE ONES CITED BY COUNTERCLAIMANT INDICATE THAT IT HAS TO BE A TORT, A MISREPRESENTATION THAT SOUNDS IN TORT.

IT DOESN'T HAVE TO DO WITH THE DIFFERENCE BETWEEN FROM
LINES AND SUBJECT LINES. THAT WAS EXACTLY WHAT THE CAN-SPAM
ACT --

THE COURT: THE ALLEGATION WITH REGARD TO THE SUBJECT LINE IS THAT IT INCLUDED SOMETHING THAT OBVIOUSLY WAS WRONG,
THAT WAS OBVIOUSLY FALSE, AS I BELIEVE -- I AM SORRY. I AM
CONFUSING IT.

THERE WERE TWO DIFFERENT ALLEGATIONS WITH REGARD TO THE FROM LINE.

MR. NETA: YES.

THE COURT: ONE WAS WITH REGARD TO THE ACRONYMS AND INITIALS, AND WHAT HAVE YOU THAT WERE USED, AND THE OTHER WAS

1 WITH REGARD TO THE USE OF MS. RILEY'S OWN NAME. 2 MR. NETA: UH-HUH. 3 THE COURT: ALL RIGHT. DO YOU SEE ANY DISTINCTION BETWEEN THOSE TWO CATEGORIES? 4 MR. NETA: I DON'T, YOUR HONOR. I FIND THAT THAT'S 5 AN IRRELEVANT DISTINCTION AT BEST. 6 7 THE COURT: THE COUNTERPLAINTIFF ARGUES THAT THE FROM 8 LINE E-MAILS, I THINK THERE ARE SIX OF THEM, THAT HAVE HER 9 NAME IN IT DO PRESENT A MATERIAL DISPUTE. I MEAN, CLEARLY IT'S WRONG, IT'S ABSOLUTE FALSITY THAT MS. RILEY'S NAME IS 10 11 INCLUDED IN THE FROM LINE. OBVIOUSLY THE SPAM E-MAIL WAS NOT 12 FROM HER. 13 MR. NETA: CERTAINLY. THE COURT: SO HOW SHOULD THE COURT ANALYZE THOSE AS 14 15 OPPOSED TO THE OTHERS? 16 MR. NETA: WELL, AS ALL THE COURTS HAVE DESCRIBED IN 17 THEIR OPINIONS, IT'S NOT SIMPLY JUST A MATTER OF IT BEING 18 WRONG. THEY ALL MAKE CLEAR THAT NONDECEPTIVE STATEMENTS, 19 OMISSIONS, IMMATERIAL INACCURACIES ARE THE KINDS OF ACTIONS 20 THAT WERE DESIGNED TO BE PREEMPTED BY CAN-SPAM. 21 THE COURT: HOW DO I DETERMINE THAT IT IS AN 22 IMMATERIAL INACCURACY? 23 MR. NETA: IT'S OBVIOUS, YOUR HONOR. WHEN I RECEIVE 24 AN EMAIL THAT'S FROM ME THAT I DON'T RECOGNIZE THAT I DID NOT

SEND IT TO ME. AND TO THE EXTENT THAT IT WAS -- SOMEHOW

1 DILUTED ME INTO TAKING ANY SORT OF ACTION WOULD JUST BE 2 SPECIOUS AT BEST. 3 THE COURT: YOU WOULD ANALYZE IT IN TERMS OF MATERIALITY AS OPPOSED TO -- BASED UPON THE OTHER -- YOU SAY 4 5 THAT THE GENERAL TORT PRINCIPLES APPLY, WHICH MEANS THAT WE WOULD OTHERWISE LOOK AT IT IN TERMS OF CALIFORNIA STATUTORY --6 7 COMMON LAW REQUIREMENTS FOR STATING A CLAIM FOR 8 MISREPRESENTATION OR FALSITY --9 MR. NETA: WELL, THAT I WOULD, TOO --THE COURT: -- WHICH WOULD REQUIRE THAT THE 10 11 PLAINTIFF -- COUNTERPLAINTIFF PLEAD AS WELL RELIANCE --12 MR. NETA: YES. 13 THE COURT: -- AND DAMAGES. 14 DON'T YOU THINK THAT'S PROBABLY A SUPERIOR WAY OF 15 ANALYZING THIS THAN JUST LOOKING AT THE MATERIALITY? BECAUSE 16 I THINK IT'S ARGUABLE AS TO WHETHER OR NOT IT'S A MATERIAL 17 MISSTATEMENT. IT'S CLEARLY AN OBVIOUSLY FALSE STATEMENT. MR. NETA: RIGHT. IT IS TRUE ON BOTH COUNTS, YOUR 18 19 HONOR, YES. 20 THE COURT: OKAY. 21 MR. NETA: WHICH ARGUMENT IS BEST, I --22 THE COURT: I CAN SEE NOW I AM ARGUING WITH MYSELF 23 ABOUT THIS, SO I WILL MOVE ON.

MR. BALSAM: I WOULD, YOUR HONOR.

DID YOU WISH TO RESPOND TO THAT?

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THE STATEMENT THAT RILEY COULD IDENTIFY THE

COUNTERDEFENDANTS THROUGH THE WHO IS RECORDS IS SIMPLY FALSE.

WE WERE ABLE TO IDENTIFY THEM BY CAREFUL COMPARISON OF SOME OF

THE TERMS AND CONDITIONS ON THE WEBSITES AND THROUGH THE

ASSISTANCE OF ONE OF THEIR OWN ADVERTISERS.

IT WAS ABSOLUTELY NOT CLEAR, NOT READILY TRACEABLE THOSE DOMAIN NAME REGISTRATIONS TO THE COUNTERDEFENDANTS.

FURTHER --

THE COURT: NOT READILY TRACEABLE, BUT TRACEABLE NONETHELESS.

MR. BALSAM: ACTUALLY NOT TRACEABLE AT ALL THROUGH
THE DOMAIN NAME REGISTRATIONS. IT TOOK ADDITIONAL RESEARCH
AND ADDITIONAL THIRD-PARTY ASSISTANCE. IT'S NOT TRACEABLE
THROUGH THE DOMAIN NAME REGISTRATIONS AT ALL.

THE COURT: OKAY.

MR. BALSAM: FURTHERMORE, BOTH THE OMEGA CASE AND THE GORDON CASE, NEITHER ONE OF THEM SAYS CATEGORICAL PREEMPTION EXCEPT FOR FRAUD. BOTH CASES TALK ABOUT IMMATERIAL TECHNICAL POINTS.

IN THE OMEGA CASE, YOUR HONOR, WHAT ACTUALLY HAPPENED
THERE IS THAT MARK MUMMA, MUMMAGRAPHICS POSTED ON HIS WEBSITE
THAT OMEGA SPAMMER. WITHOUT GETTING INTO A TRUE OR FALSE
QUESTION, HE SIMPLY POSTED THAT OMEGA IS A SPAMMER. OMEGA
SUED HIM FOR DEFAMATION. MUMMA BROUGHT COUNTERCLAIMS UNDER
THE OKLAHOMA STATE LAW.

THE ONLY FALSITY IN THOSE SPAMS WAS SOMETHING DEEP DOWN IN THE FULL HEADERS THAT AROSE AS THE RESULT OF THE SOFTWARE CONFIGURATION ERROR. IT WAS PART OF THE FULL HEADERS, NOT EVEN THE SHORT HEADERS WHICH IS WHAT YOU NORMALLY SEE. THE SHORT HEADERS ARE FROM, NAME, SUBJECT LINE, AND DATE. TO SEE THE FALSITY, YOU HAVE TO GO WAY DOWN DEEP. THAT'S WHAT THE OMEGA COURT SAID WAS PREEMPTED.

IN THE GORDON CASE, GORDON WAS COMPLAINING ABOUT VIRTUMUNDO'S FANCIFUL DOMAIN NAMES. THAT'S NOT THE ISSUE HERE.

THE ISSUE HERE IS MATERIALLY REPRESENTED FROM NAMES AND DOMAIN NAMES REGISTERED SO THAT THEY CANNOT BE TRACED TO THE SENDER.

THE TRANCOS CASE DEALT WITH BOTH OF THESE ON THE SUBSTANTIVE ISSUE. AND TO CLAIM THAT IT'S CATEGORICAL PREEMPTION EXCEPT FOR FRAUD IS SIMPLY NOT WHAT GORDON SAYS.

THREE DISTRICT COURTS AFTER GORDON PLUS TWO CAL. APP.

CASES HAVE ALL RULED THAT THE PREEMPTION IS EXCEPT FOR

FALSITY, NOT FRAUD.

THESE CASES HAVE EXPLICITLY SAID RELIANCE AND DAMAGES ARE

NOT REQUIRED AND DEFENDANTS -- COUNTERDEFENDANTS HAVE NOT

CITED A SINGLE CASE POST-GORDON IN THEIR FAVOR COMPARED TO THE

FIVE CASES THAT RILEY CITES.

THE COURT: OKAY. ALL RIGHT. IS THAT IT?

MR. NETA: JUST QUICKLY TO SAY, YOUR HONOR, THAT

1 GORDON DID SAY THAT OBSCURING THE NAMES OF THE SENDERS IS 2 PERFECTLY ACCEPTABLE CONDUCT THAT WAS SUPPOSED TO BE PREEMPTED BY CAN-SPAM. 3 THE COURT: ALL RIGHT. I HAVEN'T BEEN PERSUADED BY 4 5 YOUR ARGUMENTS. THANK YOU FOR MAKING THEM NONETHELESS. I AM RULING IN FAVOR OF THE PLAINTIFF DAVISON DESIGNS IN 6 7 THIS MATTER. 8 MAY I HEAR FROM COUNSEL FOR SPARK? 9 MR. FU: WE ALSO JOINED IN THAT MOTION. SO TO THE 10 EXTENT THE COURT HAS RULED THAT THE MOTION TO DISMISS IS 11 GRANTED AS ON THE --12 THE COURT: YES. 13 MR. FU: WE WOULD ALSO BE DISMISSED. 14 THE COURT: ALL RIGHT. BUT YOU HAVE RAISED ANOTHER 15 ISSUE WITH REGARD TO THE FIRST -- WELL, ACTUALLY YOU ARE THE 16 DEFENDANT IN THE SECOND MOTION, IT'S BROUGHT BY MS. RILEY, AND 17 THAT IS AS TO THE FIRST AMENDED --18 MR. FU: ANSWER. 19 THE COURT: -- ANSWER. BUT THAT WAS THE ANSWER FILED 20 BY YOUR CLIENT, CORRECT? 21 MR. FU: THAT'S CORRECT. 22 THE COURT: OKAY. ALL RIGHT. DID YOU WISH TO BE 23 HEARD ON THAT? MR. BALSAM: YOU TELL ME. 24 25 THE COURT: WELL, ONCE AGAIN, MS. RILEY IS NOT HAVING A GOOD DAY TODAY, COUNSEL.

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I HAVE LOOKED AT THE FIRST AMENDED ANSWER, AND I DID FORGET TO BRING IT, BUT I LOOKED AT THEM AND IT'S NOT THE TYPICAL KIND OF ANSWER IN WHICH I TYPICALLY GET THESE MOTIONS TO STRIKE. I MEAN, GENERALLY WHEN THERE'S JUST A RECITATION OF THE PARTICULAR LEGAL CLAIM WITHOUT ANY FACTUAL SUPPORT, THEN I THINK YOUR ARGUMENT'S A PRETTY STRONG ONE. AND I'VE CERTAINLY RULED, ALONG WITH A NUMBER OF OTHER JUDGES IN THIS DISTRICT, ALTHOUGH THE ISSUE HASN'T BEEN RESOLVED, I'VE CERTAINLY RULED THAT THE TWOMBLY AND IQBAL STANDARDS APPLY TO ANSWERS AS WELL AS TO COMPLAINTS.

BUT HERE, IN LOOKING AT THE CAUSES OF ACTION ARE THE AFFIRMATIVE DEFENSES THAT ARE ASSERTED, THERE IS SOME FACTUAL BASIS ALLEGED, AND I AM NOT PREPARED TO STRIKE THEM AT THIS JUNCTURE.

MR. BALSAM: OKAY.

THE COURT: SO THE MOTION IS DENIED.

MR. FU: ONE POINT OF CLARIFICATION.

TO THE EXTENT THE MOTION TO DISMISS IS GRANTED, IS THERE STILL A RULING NECESSARY ON THE MOTION TO STRIKE?

THE COURT: TO THE EXTENT THAT IT'S GRANTED -- WELL, THE MOTION TO STRIKE. THE MOTION WAS MS. RILEY'S MOTION TO STRIKE THE AFFIRMATIVE DEFENSES.

MR. FU: CORRECT.

THE COURT: THAT'S DENIED.

MR. FU: OKAY. THANK YOU. THE COURT: THE AFFIRMATIVE DEFENSES REMAIN IN THE CASE UNTIL AT LEAST THE SUMMARY JUDGMENT STAGE. IS THERE ANYTHING ELSE? MR. NETA: NO, YOUR HONOR. THANK YOU. (PROCEEDINGS CONCLUDED AT 9:25 A.M.) CERTIFICATE OF REPORTER I, DIANE E. SKILLMAN, OFFICIAL REPORTER FOR THE UNITED STATES COURT, NORTHERN DISTRICT OF CALIFORNIA, HEREBY CERTIFY THAT THE FOREGOING IS A CORRECT TRANSCRIPT FROM THE RECORD OF PROCEEDINGS IN THE ABOVE-ENTITLED MATTER. Disne E. Skillman DIANE E. SKILLMAN, CSR 4909, RPR, FCRR THURSDAY, SEPTEMBER 13, 2012