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To Be Argued By:
KEVIN R. GARDEN

IN THE
United States Court of Appeals
FOR THE SECOND CIRCUIT

My Play City, Inc., a corporation organized under the laws of the Commonwealth of Virginia,
Plaintiff-Counter-Defendant - Appellant-Cross-Appellee,

v.

Conduit Limited, a jurisdiction of organization of the company is unknown,
Defendant-Counter-Claimant - Appellee-Cross-Appellant.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR PLAINTIFF-APPELLANT MY PLAY CITY, INC.

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Fed. R. App. P. 26.1 Appellant My Play City, Inc. ("MPC") states that MPC has no parent corporation and no publicly held corporation owns any interest in MPC.

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SUMMARY OF ARGUMENT

The District Court below erred by concluding that Conduit Limited's ("Conduit's") conduct was consistent with acceptable notions of morality and thus New York law would (1) enforce Conduit's limitation of liability clause, (2) not allow punitive damages and (3) permit Conduit to actually profit from its immoral conduct. In so ruling, the District Court improperly lowered the bar for the immoral behavior that New York courts will allow, thereby actually protecting the party who acted immorally and allowing it to keep it-gotten gains. The District Court's ruling sent a clear signal to profit-above-all-else driven corporate interests who engage in similar egregious behavior: there is no disincentive to continue to do business in whatever manner you please so long as you have clever lawyers to protect you. The District Court disregarded the role of New York courts as the last refuge not only for individuals, but also for small businesses like MPC abused by the reprehensible conduct of sophisticated and powerful corporations.

The District Court's conclusion that New York law allows Conduit not only to get away with, but actually *profit* from its long-running outrageous behavior is simply incorrect. New York law has never, and should never, allow corporations like Conduit to actually *profit* from their immoral behavior. When that occurs, as in this case, something is clearly wrong.

The evidence in this case demonstrated that, over the course of a two-year business partnership with MPC, Conduit engaged in and profited from a pattern of deliberately deceitful conduct which included, among other things: deliberately keeping for itself a substantial portion of revenue derived from MPC's trademarks and owed to MPC; deliberately and secretly manipulating payments to MPC in order to apply pressure on MPC to act in accordance with Conduit's whims; refusing to disclose Conduit's actual revenues and lying to MPC about why the amount of MPC's payments were fluctuating; deliberately putting pressure on MPC by withholding payments in an effort to get MPC to sign a one-sided contract with Conduit; and continuing to use and profit from MPC's trademark even though Conduit knew that its license to use that mark had been terminated. Moreover, Conduit's longstanding (but prior to the litigation unknown) egregious conduct continued even after the business partnership with MPC terminated: for approximately eight months after Conduit terminated its contract with MPC, Conduit unilaterally and substantially profited from the use MPC's trademark and made no payments whatsoever to MPC.

As a result, MPC was forced to bring suit to obtain any compensation at all from Conduit, asserting claims for breach of contract, trademark infringement, and unjust enrichment, among others. Although Conduit reaped a total of $1,283,393 in revenues due to its reprehensible conduct, the District Court's rulings ensured

that MPC received only $505,001, even though the District Court found that MPC prevailed on its trademark and infringement claims.[1] Thus, Conduit profited handsomely from its immoral conduct.

Several erroneous rulings by District Court led to this inequitable result. First, the District Court ruled that Conduit's liability for its outrageous behavior during the contract term was limited to a mere $5,000 by virtue of a limitation of liability clause that in no way referenced Conduit's immoral behavior. Then, at trial, the District Court refused to allow MPC to present evidence of punitive damages to the jury with regard to Conduit's ongoing egregious behavior after the contract ended, even though punitive damages were available by virtue of MPC having prevailed on its unjust enrichment claim. The District Court refused to allow MPC to present this evidence to the jury despite the fact that the Court had explicitly held that the question of whether MPC was entitled to punitive damages "raises a jury question."

MPC now appeals from these lower court rulings and ask that this Court find that: (1) the limitation of liability clause is not enforceable to limit Conduit's liability for its breach of contract; (2) the case must be remanded so that MPC can present evidence of its breach of contract damages; (3) MPC has alleged sufficient

[1] The jury awarded MPC $500,001 for all of Conduit's post-contract behavior, and, pursuant to the District Court upholding Conduit's limitation of liability clause, Conduit paid MPC $5,000 instead of returning the $413,683 it had illegally withheld from MPC.

facts to show that Conduit is liable for punitive damages; and (4) the case must be remanded so that MPC can present evidence to demonstrate Conduit's liability for punitive damages.

JURISDICTIONAL STATEMENT

The District Court had subject matter jurisdiction over the trademark infringement and unfair competition claims pursuant to 15 U.S.C. § 1114(1) and 15 U.S.C. § 1125(a) respectively and subject matter jurisdiction over the breach of contract claim and other claims pursuant to 28 U.S.C. § 1332. This Court has jurisdiction of this appeal pursuant to 28 U.S.C. § 1291. Final judgment was entered in the District Court on April 24, 2013. MPC filed a timely appeal notice on May 20, 2013.

STATEMENT OF ISSUES

1. Did the District Court below err by finding that New York law not only protected Conduit from being fully liable for, but actually allowed it to profit from its egregious bad faith conduct during the term of the contract pursuant to a limitation of liability clause that did not even reference bad faith conduct?

2. Did the District Court below err by not allowing MPC to present evidence to the jury of Conduit's egregious conduct prior to the termination of the revenue share agreements – conduct that would justify not limiting Conduit's liability to $5,000 as set out in the limitation of liability clause?

3. Did the District Court below abuse its discretion by not allowing MPC to present evidence to the jury of Conduit's egregious conduct prior to the termination of the revenue share agreements that would justify an award of punitive damages for Conduit post-termination conduct?

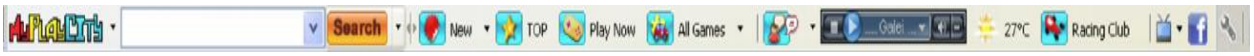
4. Did the District Court below abuse its discretion by not charging the jury with the issue of whether Conduit should be subject to punitive damages for its post-termination conduct?

STATEMENT OF THE CASE / RELEVANT FACTS

A. The Parties

MPC is a small online software company that develops and distributes popular internet computer games. JA-534 *(Tr. at 37:10-12)*; *id. (Tr. at 37:20-38:8)*. Conduit is a $1.3 billion company that allows content providers, like MPC, to create customized "toolbars" through their online website. JA-458 *(Stipulation dated April 13, 2013)*; SA-1 *(Mem. Decision and Order Granting Def.'s Mot. for Partial Summ. J. and Den. Def.'s Mot. for J. on Pleadings (hereinafter, "MPC I") at 1 [Dkt No. 95])*. A content provider can go on to Conduit's website, access its online platform, and create a customized toolbar that includes a variety of components, including a search engine box, web gadgets buttons, as well as other features which allow users to gain access to the content providers' content. SA-1-2 *(MPC I at 1-2)*; JA-534 *(Tr. at 39:3-20)*.

Once a content provider designs its customized toolbar on Conduit's website, internet users may then download the toolbar from Conduit's servers and install it on their computers. SA-2 *(MPC I at 2)*; JA-534 *(Tr. 39:17-20)*. After installation, the toolbar appears on the screen that comes up when users go to use their internet browsers, such as Internet Explorer or Google Chrome. SA-2 *(MPC I at 2)*; JA-534 *(Tr. at 40:24-41:9)*. Installed on a user's computer, the toolbar looks something like this:



JA-464 *(Plaintiff's Exhibit ("PX") 112)*; JA-534 *(Tr. at 40:12-17)*.

A Conduit-created toolbar generates revenue through user searches via the search engine box in the toolbar. SA-2 *(MPC I at 2)*. When a user makes a search by typing an inquiry into the search engine box on the toolbar and subsequently clicks on an advertisement that appears in the search results window, the advertiser who posted the clicked-on advertisement pays a certain amount of money to the search engine company that operates the search engine box, in this case Google Inc. ("Google"). *Id.*; JA-535 *(Tr. at 42:25-44:3)*. Google then shares a portion of this revenue with Conduit pursuant to a partnership agreement between Conduit and Google. *Id*.

B. The Revenue Share Agreement

In 2007, MPC entered into a business relationship with Conduit. Between 2007 and 2008, MPC created two customized toolbars – the COM toolbar and the RU toolbar[2] – using the Conduit platform (together, the "MPC Toolbars"). SA-20 *(Mem. Decision and Order Den. Def.'s Mot. for Entry of J., Granting in Part and Den. In Part Def.'s Mot. for Summ. J. and Granting Partial Summ. J. in Favor of Pl. ("MPC II") at 4 [Dkt No. 108])*. The MPC Toolbars bore MPC's registered trademarks. *Id*. MPC entered into an agreement to share revenue generated by the

[2] The COM toolbars correlated with content offered at www.myplaycity.com. The RUS toolbar correlated with content offered at www.myplaycity.ru.

RU toolbar on January 31, 2008. SA-21 *(MPC II at 5)*. This agreement was superseded by a March 11, 2008 agreement (the "Revenue Share Agreement") that applied to revenue generated by both the RU and COM toolbars. *Id*.

In the Revenue Share Agreement, MPC authorized Conduit to use the MPC trademark and software in connection with the MPC Toolbars. SA-2 *(MPC I at 2)*. In return, MPC was entitled to a share of the revenue generated by Conduit from the MPC Toolbars. SA-2-3 *(MPC I at 2-3)*. With regard to the COM toolbar, as depicted below, that revenue share percentage was initially 50%, but subsequently rose to 65% and then to 75% by mutual agreement of the parties. JA-271 *(Decl. of Rodichev in Supp. of MPC's Resp. to Def.'s Statement of Undisputed Facts Pursuant to Local Civil Rule 56.1(b) ("Rodichev Decl.") [Dkt No. 66] ¶¶ 6, 8-9)*. Similarly, for the RU Toolbar, Conduit was initially required to pay 50% of its revenues to MPC, with that share subsequently rising to 65% and then 85%. JA-271 *(Rodichev Decl. ¶¶ 6, 7, 10, 11)*.

COM Toolbar Revenue Share Percentage	
1/31/2008 – 11/01/2008	50%
11/02/2008 – 01/06/2009	65%
01/07/2009 – 10/15/2009	75%

RU Toolbar Revenue Share Percentage	
01/31/2008 – 10/01/2008	50%
10/02//2008 – 02/05/2009	65%
02/06/2009 – 10/15/2009	85%

As discussed in more detail below, while Conduit asserted that it was paying MPC in full pursuant to Revenue Share Agreement, in truth, during the term of the Revenue Share Agreement Conduit deliberately retained $413,683 in revenues which Conduit knew should have been paid to MPC.

C. Conduit Deliberately Underpaid MPC during the Term of the Revenue Share Agreement

As the evidence demonstrated, during the term of the Revenue Share Agreement (that is, from January 31, 2008 to October 15, 2009), Conduit consistently, secretly and deliberately underpaid MPC. Throughout their partnership, Conduit kept secret its internal formula for determining what share of the revenue generated from the MPC Toolbars was actually shared with MPC (even though Conduit was contractually obligated to share a set percentage of revenue with MPC). As a result, MPC had no way of knowing that Conduit was deliberately cheating MPC. JA-265-266 *(MPC's Resp. to Def.'s Statement of Undisputed Facts Pursuant to Local Civil Rule 56.1(b) ("MPC Facts") [Dkt No. 66] ¶¶ 18, 21, 23).* Conduit was supposed to pay MPC a certain percentage share of Conduit's net revenue, based on the Revenue Share Agreement and changes thereto. However, unbeknownst to MPC, Conduit's internal documents indisputably showed that Conduit was not calculating MPC's payment using the revenue share percentage it agreed to use, but instead was using a much lower percentage. *See* JA-314-417 *(Exh. V (CONDUIT008456) to Declaration of Kevin*

R. Garden ("Garden Decl.") dated June 22, 2011 [Dkt No. 90]). In addition, not satisfied with the gains from this improper behavior, Conduit was also secretly adjusting MPC's payments through a process called "screening."[3] JA-265 *(MPC Facts ¶ 22).* MPC was never informed of this screening process. JA-266 *(MPC Facts ¶ 23)*; JA-146 *(Nahmias Dep. at 58:9-11 ("Q: Did you tell MyPlayCity that you were making changes in their screening? A: No."))*; JA-147 *(Nahmias Dep. at 60:21-61:9); JA-230 (Nahmias Dep. at 377:23-378:9).*

The money which Conduit did not pay MPC but instead kept for itself was substantial. For instance, Conduit had agreed to pay MPC a 65% revenue share percentage for revenues generated from the COM toolbar between November 2, 2008 and January 6, 2009. JA-271 *(Rodichev Decl. ¶¶ 8-9).* However, as its internal records show, during this period Conduit secretly kept the revenue share percentage at 50%. JA-314-331 *(Exh. V (CONDUIT008456) to Garden Decl. dated June 22, 2011 [Dkt No. 90] at 33-50).* Conduit kept the difference. Neither

[3] "Screening" was a secret process by which Conduit adjusted the total revenue it collected related to a specific toolbar, before it made any calculations using a particular revenue share percentage. In other words, the "screened" amount came off the top. For example, if Conduit set a screening factor of "10," Conduit would then reduce its revenues down to 90% through the screening process (100%- the screening factor). Then, if the revenue share percentage was 50%, Conduit would pay out 50% of only 90% of its revenues, not 50% of the full 100% revenues. Therefore, even if the revenue share percentage was set at 50%, with a "10 screening," MPC would in reality receive only 45% of revenue generated by its toolbar and Conduit would keep 55%. JA-247 *(Deposition of Amir Nahmias ("Nahmias Dep.") at 387:14-25).* This deduction was in addition to the fact that Conduit was not paying the full revenue share percentage.

was this an isolated incident; rather, it was Conduit's common practice during its relationship with MPC. As of January 7, 2009 until the Revenue Share Agreement was terminated on October 15, 2009, Conduit had agreed to pay MPC 75% of the revenue it generated from the COM toolbar. JA-271 *(Rodichev Decl. ¶ 9).* Again, Conduit lied. Except for 13 days in September 2009 when Conduit raised the revenue share percentage to 63%, Conduit kept the revenue share percentage during this period at 50%. JA-331-417 *(Exh. V (CONDUIT008456) to Garden Decl. dated June 22, 2011 [Dkt No. 90] at 50-136).* And, once again, Conduit kept the rest. In short, between November 2, 2008 and October 16, 2009, Conduit never paid MPC more than a 63% revenue share (including screening), and, for the vast majority of that period, paid MPC much less than even that, despite the fact that Conduit was contractually obligated to maintain MPC's revenue share at 65% and 75% during this period. JA-314-417 *(Exh. V (CONDUIT008456) to Garden Decl. dated June 22, 2011 [Dkt No. 90] at 33-136).*

A review of MPC's actual revenue percentages for the RU toolbar tell a similar story. Although Conduit had agreed to pay MPC 85% revenue share from February 6, 2009 to October 15, 2009, actual revenue percentages paid to MPC were much less. JA-271 *(Rodichev Decl. ¶ 10).* For instance, including screening which lowered the revenue amount paid by Conduit, during this period Conduit paid MPC an ever decreasing revenue share, beginning with 76.5% on February 6,

2009 and ending with a mere 44% on October 15, 2009. JA-339-417 *(Exh. V (CONDUIT008456) to Garden Decl. dated June 22, 2011 [Dkt No. 90] at 58-136).* In all, through this nefarious practice, Conduit secretly siphoned $413,683 owed to MPC. *See* JA-301 *(Expert Report of Maria Grinkrug attached to Decl. of Kevin Garden dated April 4, 2011 [Dkt No. 66] ("MPC Expert Report") at 8).*

As to Conduit's screening adjustments, at times when Conduit wanted to mislead MPC about how well Conduit's product was performing, Conduit used its screening process to show that revenues were increasing compared to past payments. *Compare* JA-*402 (Exh. V (CONDUIT008456) to Garden Decl. dated June 22, 2011 [Dkt No. 90] at 121 (entry for COM toolbar (1392740) for 9/2/2009: revenue share percentage of 50% with screening at -6, meaning that screening increased actual revenue share to 52.5%)) with id. (entry for COM toolbar (1392740) for 9/15/2009: revenue share percentage of 63% with screening at 15, meaning that screening reduced actual revenue share to 53.55%).* However, even with these misleading adjustments, Conduit still dramatically underpaid MPC. JA-301 *(MPC Expert Report at 8).*

D. Conduit's Conduct was Also Intended to Manipulate MPC

Conduit's secret revenue adjustments were not made solely for the purpose of putting money directly into Conduit's pocket. Conduit was also manipulating payments to MPC in an effort to strong-arm MPC into agreeing to a one-sided

contract in favor of Conduit. The record shows that in late 2009, MPC was considering switching from Conduit to a rival toolbar platform operated by ASK.com. JA-278 *(Exh. A (CONDUIT007513) to Decl. of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Letter from Nahmias to Levi, Bilczyk, and Kaye dated October 12, 2009) (". . . we are fighting Myplaycity right now due to their plans to work with ASK[.com] for US users . . .")).* Conduit, however, wanted MPC to sign an exclusive agreement with Conduit. *Id*.; JA-203 *(Nahmias Dep. 214:3-7 ("Q. So Conduit wanted MyPlayCity to agree that Conduit would be the exclusive web provider for MyPlayCity's games, correct? A. Correct. And they were about to get higher revenue share.")).* In order to pressure MPC to enter into an exclusive agreement, Conduit secretly adjusted the revenue share due to MPC by adjusting the revenue share percentage and screening.

For instance, in order to apply pressure on MPC, on September 16, 2009, Conduit's Vice President sent an e-mail to Conduit's President requesting that MPC's COM toolbar revenue share percentage be taken down to 50%, with regular screening of 10 (meaning the MPC would actually receive 45% of the revenue generated), even though Conduit had agreed that MPC's revenue share percentage would be 75% during this time. JA-*293 (Exh. A (CONDUIT008021) to Decl.of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Letter from Nahmias to Gen, Boyden dated September 16, 2009) ("Please take [MPC's] toolbars down to 50%*

with the regular screening. Hope you can do it before midnight . . . I want them to feel the heat.")); JA-197 *(Nahmias Dep. 190:6-17 ("Q. So by "heat," do you mean effort that Conduit put into the relationship? A. No, by taking them down to 50 percent, plus regular screening, meaning they will generate much less revenue they were used to generate, and maybe they will understand how much effort we put and how much, you know, where these relations could go. Q. So by having their revenue decreased, they are going to feel the heat of having less money, correct? A. Correct.")*); JA-152 *(Nahmias Dep. at 65:1-9 ("Q. So you did change the screening based on what was going on in the negotiations over the new agreement, correct? A. I think you are referring to a point that we reached the understanding that there is a no-go for the agreement. Q. And at that point, you changed the screening, correct? A. Yes.")).*

MPC was never informed of this unilateral reduction in its revenue share percentage and never agreed to it. JA-265 *(Decl. of Kevin Garden dated April 4, 2011 [Dkt No. 66] ¶ 23).* Nevertheless, consistent with the secret request in the September 16 e-mail, on September 16, 2009 the revenue share percentage for MPC's COM toolbar was internally lowered by Conduit from 63% to 50%, with screening set at 15 – meaning that from September 16, 2009 until October 15, 2009, MPC received only 42.5% of the revenue Conduit collected from Google for the COM toolbar, despite fact the fact MPC and Conduit had agreed that the MPC

was to receive 75% revenue share during this period. JA-406, 407-417 *(Exh. V (CONDUIT008456) to Garden Decl. dated June 22, 2011 [Dkt No. 90] at 125, 126-136).* Incredibly, Conduit insisted that it had done nothing wrong when it did this.

Conduit also secretly manipulated MPC revenue share through adjusting screening when MPC sought to negotiate better revenue share terms with Conduit. On May 25, 2009, Conduit's Vice President requested that Conduit's President increase MPC's screening by "2-3%" because "MPC will soon start asking for higher rev[enue]-share again." JA-283 *(Exh. A (CONDUIT007997) to Decl. of Kevin Garden dated April 4, 2011 [Dkt No. 66] ("I want to take them down by 2-3% [in screening], they will soon start asking for a higher rev-share again…")).* This demonstrates the screening was not enacted for a legitimate purpose but rather as a way for Conduit to manipulate MPC and as just another intentional but secret Conduit money grab.

Overall and pursuant to these actions, Conduit profited by $413,683 by keeping money owed to MPC during the term of the Revenue Share Agreement. JA-301 *(MPC Expert Report).* And this was in addition to its deliberate but secret efforts to mislead and manipulate MPC. As a result of the Court's interpretation of New York law to enforce an exculpatory clause in the Revenue Share Agreement,

however, Conduit only had to pay MPC $5,000 in damages and was able to keep $408,683 of its ill-gotten gains.

E. Conduit's Other Egregious Conduct During and After the Term of the Revenue Share Agreement

Conduit's egregious conduct was not limited to what was discussed above, and notably its improper conduct continued on even after it terminated the Revenue Share Agreement. Although Conduit was not liable for punitive damages during term of the Revenue Share Agreement, its punitive damages liability "raise[d] a jury question" for the post-termination period. SA-59-60 *(MPC II at 43-44).* Conduit's ongoing egregious conduct was not an aberration or through an oversight, but was deliberate and was exhibited in a variety of ways.

On October 15, 2009, Conduit unilaterally terminated the Revenue Share Agreement and ceased sharing with MPC revenue generated from the MPC Toolbars. SA-37 *(MPC II at 21).* However, contrary to the terms of the Revenue Share Agreement which clearly stated that Conduit's license to use MPC's trademark ended when the agreement ended, Conduit continued to distribute and grant the public access to the MPC Toolbars for another eight months, until June 12, 2010. SA-25, 59 *(MPC II at 9, 43).* In doing so, the District Court found that Conduit clearly acted in bad faith. SA-56 *((MPC II at 40) ("I thus conclude that there is ample evidence of bad faith, and no evidence of lack of bad faith to counter.")).* The District Court found it to be impossible that Conduit actually

believed that its conduct was justifiable, referring to this position to be "nonsense," "utterly unreasonable," "patently ridiculous" and based on assertions that were "simply not true." SA-71, 75, 78, 80 *(Decision and Order Den. Def.'s Mot. for Recons. [Dkt No. 122] at 7, 11, 14, and 16)*. During this post-termination period, Conduit collected a total of $869,710 in revenue generated by the MPC Toolbars. JA-457 *(Stipulation dated 4/4/2013)*; JA-420 *(Exh. B to Garden Decl. dated June 22, 2011 [Dkt No. 90] (Supplement to Amended Revised Expert Report of Maria Grinkrug dated May 23, 2011) ("MPC Amended Expert Report") at 3)*. Conduit did not share any of this revenue with MPC.

Furthermore, Conduit persisted in refusing to allow MPC access to their revenue share information during and after the term of the Revenue Share Agreements, even though Conduit was still receiving substantial sums of money from MPC's toolbars. Pursuant to the Revenue Share Agreements, Conduit was obligated to provide MPC information through Conduit's website informing MPC of the revenue Conduit was receiving from Google for the MPC Toolbars. As set out in Section 2(b) of the Revenue Share Agreement:

> Data Tracking- Conduit shall provide Publisher [MPC] with access to online pages hosted on Conduit's server in which Publisher [MPC] can track revenues of MyPlayCity and MyPlayCityRU Toolbars. Conduit shall update the data on this page at least once a week. Conduit shall not be responsible for temporary inaccuracy or unavailability of such data.

JA-476 *(Defendant's Trial Exhibit ("DX") 3 at 1)*.

Before the Revenue Share Agreement was terminated, Conduit systematically, deliberately and covertly understated the revenue data on its web site to mislead MPC into believing that Conduit was turning over to MPC its proper share of the revenues from MPC's own content. JA-265-268 *(MPC Facts ¶¶ 21, 23-32).* While on the one hand Conduit promised MPC that it was increasing MPC's revenue share percentage under the Revenue Share Agreement and paying MPC in accordance with this increased revenue share (JA-265 *(MPC Facts ¶ 19)*), in fact Conduit was knowingly not paying MPC pursuant to those agreed revenue shares. JA-269 *(MPC Facts ¶ 38).* In other words, Conduit lied, over and over again.

To add insult to injury, Conduit blocked MPC's access to the Data Tracking information related to its revenues out of malice, simply to make MPC "sweat." At one point, MPC desperately sought information about how its toolbars were performing, and Conduit's employees privately conspired to deny MPC that information to put pressure on MPC:

> "Amir, Brock, whats [sic] going on? The community toolbar name or password is incorrect. we didn't get any notifications from you about it. the same for our partners. Please clarify. Thanks!"
>
> JA-277 *(Exh. A (CONDUIT004608) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Email from Alexander Rodichev, MPC, to Amir Nahmias and Brock Kaye, Conduit, October 23, 2009)).*

"FYI, I asked Brock to not respond to this email for now. . . we'll contact them mid next week Thanks, Amir."

> JA-277 *(Exh. A (CONDUIT004608) to Declaration of Kevin Garden dated April 4, 2011[Dkt No. 66] (Email from Alexander Rodichev, MPC, to Amir Nahmias and Brock Kaye, Conduit, October 23, 2009)).*

"Excellent Let them sweat. Adam."

> JA-277 *(Exh. A (CONDUIT004608) to Declaration of Kevin Garden dated April 4, 2011[Dkt No. 66] (Email from Alexander Rodichev, MPC, to Amir Nahmias and Brock Kaye, Conduit, October 23, 2009)).*

Conduit also manipulated the revenue paid to MPC out of malice. As internal emails provided by Conduit show, Conduit was seeking to cause harm to MPC by deliberately manipulating the revenue amounts it disclosed to "these fuckers," *i.e.*, MPC.

"Please increase screening for myplaycity CT1392740 by 2%."

> JA-286 *(Exh. A (CONDUIT008005) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Email from Amir Nahmias, Conduit, to Roy Gen, Conduit, July 30, 2009)).*

"With great pleasure (-:"

> JA-286 *(Exh. A (CONDUIT008005) to Declaration of Kevin Garden dated April 4, 2011[Dkt No. 66] (Email from Amir Nahmias, Conduit, to Roy Gen, Conduit, July 30, 2009))*

"I'm also pleased to start this process with these fuckers. . ."

> JA-286 *(Exh. A (CONDUIT008005) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Email from Amir Nahmias, Conduit, to Roy Gen, Conduit, July 30, 2009)).*

In fact, when this conduct was described to Conduit's own expert in this case during his deposition, he said that it was unethical. JA-307 *(Exh. D to Decl. of Kevin Garden dated April 4, 2011 [Dkt No. 66] at 235-36 (deposition testimony of Ryan Berryman, who has been designated by Conduit as its expert testifying witness, stating that deliberately but secretly changing revenue amounts "doesn't seem ethical"))*.

All of this deliberate and immoral conduct continued after the Revenue Share Agreement was terminated by Conduit. Even though Conduit drafted the Revenue Share Agreement to clearly state that Conduit's rights to use MPC's mark on the toolbars ended when the agreement ended, and Conduit itself terminated the agreement as of October 16, 2009, Conduit continued to use and profit from MPC's mark, continued to deny MPC any information about Conduit's revenues, and continued to deliberately put pressure on MPC by refusing to pay any amounts to MPC whatsoever. As the saying goes, a leopard spots never change. Thus, when Conduit's egregious post-contract behavior is shown in the context of its overall behavior, it is absolutely clear that Conduit's egregious conduct was deliberate and part of an ongoing pattern of immoral and outrageous conduct.

F. The Lawsuit

As a result of Conduit's conduct, on March 1, 2010, MPC brought suit against Conduit in the United States District Court for the Southern District of New

York, stating claims for breach of contract, unjust enrichment, federal trademark infringement, federal unfair competition, and common law unfair competition.[4] *See* JA-38-59 *(Compl. [Dkt No. 1]; Second Am. Compl. [Dkt No. 41]).* MPC sought $413,683 in compensatory damages for Conduit's conduct prior to the end of the contract, in addition to $869,710 in compensatory damages for Conduit's conduct after it terminated the contract, in addition to punitive damages for Conduit's post-termination conduct. JA-301 (MPC Expert Report at 8); JA-420 (MPC Amended Expert Report at 3).

G. Conduit's Limitation of Liability Clause

When Conduit's egregious conduct was exposed, one of the first things it did was seek to hide behind a limitation of liability clause which it had included in a Publisher Agreement set out on its website, which the Revenue Share Agreement incorporated by reference. Among the provisions of the Publisher Agreement is a general limitation of liability clause, which states in its entirety:

> CONDUIT AND ITS LICENSORS WILL NOT BE LIABLE FOR ANY LOST PROFITS OR COSTS OF PROCUREMENT OF SUBSTITUTE GOODS OR SERVICES, OR FOR ANY INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING DAMAGES FOR LOST DATA, HOWEVER CAUSED AND UNDER ANY THEORY OF LIABILITY, INCLUDING BUT NOT LIMITED TO CONTRACT, PRODUCT LIABILITY, STTRICT LIABILITY AND NEGLIGENCE, AND WHETHER OR NOT CONDUIT WAS OR SHOULD HAVE BEEN

[4] The Revenue Share Agreement included a choice of law clause which set New York law as governing law for all dispute related to that agreement.

> AWARE OR ADVISED OF THE POSSIBILITY OF SUCH DAMAGE. IN NO EVENT WILL CONDUITS' AND ITS LICENSORS' AGGREGATE LIABILITY ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE USE OF OR INABILITY TO USE THE TOOLBAR AND/OR ENVIRONMENT, TO THE FULLEST EXTENT POSSIBLE UNDER APPLICABLE LAW, EXCEED $5,000. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OR LIMITATION OF INCIDENTAL OR CONSEQUENTIAL DAMAGES, SO THE ABOVE LIMITATIONS AND EXCLUSIONS MAY NOT APPLY TO PUBLISHER.

SA-9 *(MPC I at 9).*

Conduit used this clause to argue that, notwithstanding Conduit's deliberately immoral conduct and the fact that it had retained revenues in the amount of $413,683 as a result of its illegal conduct, by law only Conduit owed MPC $5,000. *Id*; *Conduit Limited's Mem. Of Law In Supp. Of Its Mot. For Partial Summ. J. at 9-15 [Dkt No. 49]*. In other words, Conduit reaped a huge amount of revenues from MPC's trademark during the term of the agreement. However, Conduit only shared a portion of those revenues with MPC in violation of the parties' agreement and illegally kept $413,683. Conduit then deviously concluded that it could simply invoke its limitation of liability clause and, rather than pay MPC its fair share by turning over the $413,683 Conduit had kept, Conduit would only pay MPC $5,000 and there would be nothing MPC could do about it.

MPC argued that Conduit's outrageous conduct, particularly with regard to the underpayment of revenue share Conduit was contractually bound to provide to MPC, was indisputably intentional and indisputably done in bad faith. SA-10

(MPC I at 10); Pl. MPC's Opp. to Mot. For Partial Summ. J. at 19-26 [Dkt No. 66]. Therefore, New York law was clear that parties that acted like Conduit could not hide behind a clause such as Conduit's to limit their liability or use this clause to actually profit from their immoral conduct. The clause, which made no reference to immoral conduct, clearly was never intended to serve a purpose so contrary to public policy.

However, prior to the trial and pursuant to summary judgment motions, the District Court agreed with Conduit (but also held that the limitation of liability clause was no longer in effect when the contract terminated, and thus did not limit Conduit's liability after the contract terminated). *Id*. at 13. In ruling, the Court held that "MPC has not adduced evidence that Conduit's conduct was sufficiently egregious make the Limitation of Liability provision in the Publisher Agreement unenforceable." *Id*. Conduit then, insisting it had done nothing wrong, tendered to MPC the sum of $5,000, thereby making MPC's breach of contract claim moot.

With regard to the remaining claims, the below court granted summary judgment as to MPC's unjust enrichment, federal trademark infringement, federal unfair competition, and common law unfair competition claims stemming from Conduit's use of MPC's federal registered trademark in the MPC Toolbars. SA-64 *(MPC II at 48)*. The Court set two issues for a bifurcated jury trial: (1) the meaning of the phrase "the use of or inability to use the Toolbar and/or the

Environment' (which would determine whether a limitation of liability clause applied to Conduit's conduct after the termination of the Revenue Share Agreement) and (2) (if MPC prevailed on the first issue) the amount of MPC's damages. Order dated March 19, 2013 [Dkt No. 165]. Trial was held between April 9, 2013 and April 17, 2013. The jury found that the limitation of liability clause in the Revenue Share Agreement did not apply to Conduit's conduct after termination of the Revenue Share Agreement and delivered a monetary judgment for MPC in the amount of $500,001. SA-125 *(Judgment dated April 24, 2013 [Dkt No. 184]).*

H. The District Court Refused to Allow MPC to Present Evidence at Trial Relevant to Punitive Damages

When the Court granted MPC's common law trademark infringement and unfair competition causes of actions (stemming from Conduit's use of the MPC trademark after termination of the Revenue Share Agreement), it held that the availability of punitive damages "raises a jury question." SA-61 *(MPC II at 45).* Accordingly, during trial MPC sought to introduce evidence of Conduit's egregious conduct prior to termination of the Revenue Share Agreements to demonstrate Conduit's pattern of wrongdoing and extreme misdeeds. Essentially, MPC sought to demonstrate that Conduit's post-termination conduct was not an isolated incident or inadvertent but in fact was part of the same pattern of egregious conduct demonstrated prior to the termination of the Revenue Share

Agreement. JA-432 *(Am. Joint Pre-Trial Order, Plaintiff MPC's Contentions ¶ 16).* MPC argued that this conduct merited punitive damages. However, MPC was not given a chance to present its evidence. JA-579-580, 607-609 (Tr. at 218:2-219:12; 327:1-335:12). After reviewing evidence that MPC sought to present, the Court ruled that it would not charge the jury with punitive damages based on its determination that Conduit's conduct was really not that bad. The Court reasoned that:

> [t]he only reason for introducing evidence of pre-termination behavior is to establish pattern and practice or recidivist tendency, thereby making what is arguably punitive conduct the more clearly punitive conduct but the underlying conduct has to be punitive in the first place. For the behavior that underlies the lawsuit which in this case is the six months' misuse of MyPlayCity's trademark caused which caused MyPlayCity economic but not reputational damage, when that conduct is not sufficiently reprehensible to warrant a charge of punitive damages. There is no basis under *State Farm* [*Mutual Auto. Ins. Co. v. Campbell*, 538 U.S. 408 (2003)] to introduce evidence of pre-termination conduct.

JA-607 *(Tr. at 329:6-16).*

STANDARD OF REVIEW

This issue of whether the limitation of liability clause applies to limit Conduit's pre-termination breach of contract conduct presents a question of law, and is subject to *de novo* review. *Olin Corp. v. Am. Home Assur. Co.*, 704 F.3d 89, 96 (2d Cir. 2012) ("We review de novo a district court's grant of summary judgment . . .").

The issue of whether the District Court improperly prevented MPC from presenting evidence of Conduit's punitive damage conduct at trial is subject to abuse of discretion review. *Ragin v. Harry Macklowe Real Estate Co.*, 6 F.3d 898, 909 (2d Cir. 1993) ("We review a district court's decision not to award punitive damages for abuse of discretion.")

ARGUMENT

I. A Material Dispute of Facts Exists as to Whether the Limitation of Liability Clause Is Enforceable to Limit the Liability Conduit's Conduct during the Terms of the Revenue Share Agreement

A. An Exculpatory Clause is not Enforceable to Limit Liability for Intentional Conduct

New York law is very clear- an exculpatory clause cannot limit liability for intentional wrongful conduct.

> An exculpatory clause is unenforceable when, in contravention of acceptable notions of morality, the misconduct for which it would grant immunity smacks of intentional wrongdoing. This can be explicit, as when it is fraudulent, malicious[] or prompted by the sinister intention of one acting in bad faith.[]
> . . .
> In either event, the policy which condemns such conduct is so firm that even when, in the context of the circumstances surrounding the framing of a particular exculpatory clause, it is determined, as it was by one of the interrogatories here, that the conduct sought to be exculpated was within the contemplation of the parties, it will be unenforceable (*see Peckham Rd. Co. v. State of New York*, 32 A.D.2d 139. 141-142, *aff'd* 28 N.Y.2d 734; *Johnson v. City of New York*, 191 App. Div. 205, *aff'd*, 231 N.Y. 564).

Kalisch-Jarcho, Inc. v. City of New York, 58 N.Y.2d 377, 385 (N.Y. 1983).

The court in *Kalisch-Jarcho* noted that, under New York law, malice involves a "state of mind intent on perpetrating a wrongful act to the injury of another without justification." *Id.* at 385. The court further noted that bad faith "connotes a dishonest purpose," citing the Uniform Commercial Code § 1-201, subd. 19. The court held:

> [A]n exculpatory agreement, no matter how flat and unqualified its terms, will not exonerate a party from liability under all circumstances. Under announced public policy, it will not apply to exemption of willful or grossly negligent acts (cf., e.g., *Gross v. Sweet*, 49 NY2d 102, 106, *with Ciofalo v. Vic Tanney Gyms*, 10 NY2d 294, 297; *see, generally*, 15 Williston, Contracts 93d Jaeger ed.], § 1750A; 5 Corbin, Contracts, § 1068; Restatement, Contracts 2d § 195).

Id.

The principle set out in *Kalisch-Jarcho* is well-settled under New York law. As set out in *Metropolitan Life Insurance Company v. Noble Lowndes International, Inc.*, New York law holds that conduct which "smack[s] of intentional wrongdoing" is not covered by limitation of liability provisions. 643 N.E.2d 504, 509 (1994) (*quoting Sommer v. Federal Signal Corp.*, 79 N.Y.2d 540, 554 (N.Y. 1992)). *Metropolitan Life* further noted that Corbin on Contracts and the Restatement (Second) of Contracts also supports this position. *Metropolitan Life*, 643 N.E.2d at 439 (*citing to* Corbin, Contracts § 1068, at 389, Restatement (Second) of Contracts § 195(1)).

This principle is further defined in *Sommer*, 79 N.Y.2d at 554, which rejected a defendant's effort to shield its wrongdoing behind a limitation of liability clause, holding as follows:

> It is the public policy of this State, however, that a party may not insulate itself from damages caused by grossly negligent conduct *(Kalisch-Jarcho, Inc. v City of New York*, 58 NY2d 377, 384-385; *Gross v Sweet*, 49 NY2d 102, 106). This applies equally to contract clauses purporting to exonerate a party from liability and clauses limiting damages to a nominal sum.

> Gross negligence, when invoked to pierce an agreed-upon limitation of liability in a commercial contract, must "smack[] of intentional wrongdoing" *(Kalisch- Jarcho, Inc. v City of New York,* 58 NY2d, at 385, *supra).* It is conduct that evinces a reckless indifference to the rights of others *(id.; see also,* Restatement [Second] of Contracts § 195 [1] [intentional or reckless conduct vitiates contractual term limiting liability]).

This principle applies even to contracts between sophisticated commercial parties, although a "more exacting standard" must be satisfied. *Alitalia Linee Aeree Italiane v. Airline Tariff Publ. Co.*, 580 F. Supp. 2d 285, 294 (S.D.N.Y. 2008); *accord Covergia Networks, Inc. v. Huawei Techs. Co.*, No. 06 Civ. 6191 (PKC), 2008 WL 4787503, at *5 n. 5 (S.D.N.Y. Oct. 30, 2008). For instance, in *Baidu, Inc. v. Register.com, Inc*. 760 F. Supp. 2d 312 (S.D.N.Y. 2010), the court applied this rule, refusing to enforce the limitation of liability clause where the defendant acted in a grossly negligent or reckless manner when it failed to follow its own security protocols.

B. The Court Erred in Holding that, as a Matter of Law, the Limitation of Liability Clause Exculpated Conduit

In a situation where there are disputes of material fact related to the wrongfulness of the conduct at issue, the court in *Valve Corporation v. Sierra Entertainment, Inc.* 431 F. Supp. 2d 1091, 1102 (W.D. Wash. 2004) held that "[g]enuine issues of material fact preclude summary judgment on the issue of bad faith." *Id*. Similarly, the District Court held in *Baidu*, 760 F. Supp. 2d at 318-19:

> [Plaintiff] has alleged sufficient facts in its complaint to give rise to a plausible claim of gross negligence or recklessness. If these facts are proven they would provide a sufficient basis for a jury to find that [Defendant] acted in a grossly negligent or reckless manner, in which event the limitation of liability clause in the [agreement] would be ineffective.

As the court held in *Sommer*, 79 N.Y.2d at 554-55, where there are issues of fact related to the applicability of a limitation of liability clause, those issues of fact are for the jury to determine. *See Tide Natural Gas Storage I, L.P. v. Falcon Gas Storage Co., Inc.*, 2011 WL 4526517 at *6 (S.D.N.Y Sept. 29, 2011) ("Whether the challenged conduct rises to the level of 'intentional wrongdoing' is a question of fact" which must be decided by the factfinder when the "Complaint is replete with allegations that Defendants engaged in intentional wrongdoing").

At summary judgment, the District Court enforced the limitation of liability clause to limit damages stemming for Conduit's conduct prior to termination of the Revenue Share Agreement, including its intentional underpayment and deception, to $5,000. SA-9 *(MPC I at 9).* In doing so, the District Court recognized that an exculpatory clause is not enforceable when "the misconduct for which it would grant immunity smacks of intentional wrongdoing." SA-11 *(MPC I at 11 (quoting Kalisch-Jarcho, 58 N.Y.2d at 385)).* Limiting itself solely to the narrow issue of Conduit's "screening" practice, the District Court found that Conduit's screening program did not evidence the type of "misconduct that would prevent the Court from enforcing the Limitation of Liability provision." SA-12 *(Id. at 12).* In

making this ruling, however, the District Court completely ignored other evidence adduced by MPC: namely, that in addition to the screening practice, Conduit unilaterally, intentionally, and secretly reduced the revenue share percentage to which MPC was contractually entitled to and kept the difference for itself. SA-11-13 *(Id. at 11-13); Pl. MPC's Mem. In Supp. Of Its Mot. for Recons. Of Court's Order Dated July 29, 2011 [Dkt No. 100] at 3* ("The fact that Conduit deliberately underpaid MPC is further confirmed by documents which Conduit withheld until after the discovery period ended which indisputably confirm that Conduit engaged in an extensive and deliberate pattern throughout the term of the contract of paying MPC based on revenue share percentages which were far lower than those Conduit had agreed to pay."); *id*. at 6 ("Information that MPC obtained from documents produced by Conduit after the close of discovery and testimony from the deposition of Conduit's representative on May 12, 2011 unequivocally show that Conduit deliberately and repeatedly, for virtually the entire term of the contract, failed to use the revenue share percentage Conduit had told MPC it was using."). Conduit's deliberate practice of underpayment is precisely the type of a conduct that a limitation of a liability clause may not cover.

As the record shows, Conduit engaged in a pattern of intentional wrongdoing and egregious deception directed at MPC with the intent of depriving MPC of revenues it was contractually obligated to receive from Conduit. *See*

Statement of the Case/Relevant Facts, Section C *supra* at 10-13. Conduit acted in clear bad faith: it unilaterally manipulated the revenue MPC received in order to enrich itself at MPC's expenses and to apply pressure to MPC so that MPC would agree to favorable contract terms with Conduit. Conduit's actions were also intentional and fraudulent. In short, Conduit's actions were the epitome of the type of actions that, under New York law, may not be limited under an exculpatory clause.

It is undeniable and in fact proven by Conduit's own internal documents that for much of the term of the Revenue Share Agreement, Conduit dramatically underpaid MPC. Conduit had agreed to raise MPC's revenue share percentage from 50% to ultimately 75% for the COM toolbar and from 50% up to 85% for the RU toolbar. JA-271 *(Rodichev Decl. ¶¶ 6-10).* Yet the actual revenue share percentage records show that Conduit paid MPC dramatically less than what it promised – less by $413,683 over the term of the Revenue Share Agreement. JA-301 *(MPC Expert Report at 8).* This money was kept by Conduit.

Neither was this chronic underpayment the result of a mistake or a miscommunication. Conduit's own internal communications show that Conduit made key decisions to manipulate MPC's revenue share percentage unilaterally to serve Conduit's nefarious purpose: to apply pressure and leverage on to MPC. For instance, when MPC was considering switching from Conduit to a rival toolbar

platform operated by ASK.com, Conduit took down MPC's revenue share percentage in order for MPC to "feel the heat." *See* JA-278 *(Exh. A (CONDUIT007513) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Letter from Nahmias to Levi, Bilczyk, and Kaye dated October 12, 2009) (". . . we are fighting Myplaycity right now due to their plans to work with ASK[.com] for US users . . .")*; JA-293 *(Exh. A (CONDUIT008021) to Declaration of Kevin Garden dated April 4, 2011[Dkt No. 66] (Letter from Nahmias to Gen, Boyden dated September 16, 2009) ("Please take [MPC's] toolbars down to 50% with the regular screening. Hope you can do it before midnight . . . I want them to feel the heat.")*). JA-197 *(Nahmias Dep. 190:6-17 ("Q. So by "heat," do you mean effort that Conduit put into the relationship? A. No, by taking them down to 50 percent, plus regular screening, meaning they will generate much less revenue they were used to generate, and maybe they will understand how much effort we put and how much, you know, where these relations could go. Q. So by having their revenue decreased, they are going to feel the heat of having less money, correct? A. Correct.")*; JA-152 *(id. at 65:1-9 ("Q. So you did change the screening based on what was going on in the negotiations over the new agreement, correct? A. I think you are referring to a point that we reached the understanding that there is a no-go for the agreement. Q. And at that point, you changed the screening, correct? A. Yes.")*). That same day, MPC's COM toolbar revenue share percentage was

lowered from 63% to 50%, with screening set at 15 – meaning that from September 16, 2009 until October 15, 2009, MPC received only 42.5% of the revenue Conduit collected from Google for the COM toolbar, despite fact the fact MPC and Conduit had agreed that the MPC was to receive 75% revenue share during this period. JA-406, 407-417 *(Exh. V (CONDUIT008456) to Garden Decl. dated June 22, 2011 [Dkt No. 90] at 125, 126-136).*

Conduit also manipulated MPC's revenue share throughout their relationship through their secret screening program. Essentially, Conduit would skim a portion of the revenue generated from the MPC Toolbars at the outset and keep that revenue for itself, without ever notifying MPC of this practice. The screening percentage varied throughout the relationship – at times positive and at other times negative. Yet it is clear that Conduit adjusted the screening percentage unilaterally and for a wrongful purpose. For instance, on May 25, 2009, Conduit's Vice President requested that Conduit's President increase MPC's screening by "2-3%" because "MPC will soon start asking for higher rev[enue]-share again." JA-283 *(Exh. A (CONDUIT007997) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] ("I want to take them down by 2-3% [in screening], they will soon start asking for a higher rev-share again…")).*

Moreover, limitation of liability clauses are used to shield parties from liability. However, Conduit invoked the limitation of liability clause not as a

shield to liability, but as a tool that enabled it to retain substantial ill-gotten gains. This was never the intent of the parties. As a result, Conduit used the limitation of liability clause and New York to protect its ill-gotten gains of $408,683. That use of the clause is clearly incorrect and contrary to public policy.

Simply put, throughout their business relationship, Conduit secretly, unilaterally, repeatedly, and **intentionally** breached the Revenue Share Agreement with MPC, for purpose of stealing money rightfully due to MPC and manipulating MPC to renegotiate the Revenue Share Agreement under terms more beneficial to Conduit. The evidence shows Conduit's conduct demonstrates an intention to hurt MPC, to reduce its revenues in order to put itself in an advantageous position, and retain money contractually owed to MPC. By holding that Conduit's liability was limited by the exculpatory clause, the District Court essentially validated a practice whereby a company may steal revenues owed to its business partner and profit by opting to pay the maximum amount under its limitation of liability clause and keeping the balance. This is not a case where a company breaches a contract by not performing a contractual obligation because doing so would cause harm to the company -- an instance of so-called efficient breach. Nor is it a case where Conduit was shielding itself from consequential damages. Rather, Conduit plainly stole money owed to MPC for no reason other than because it suited Conduit's desire and used the limitation of liability clause as tool to get away with it.

As described above, that evidence shows that Conduit's actions were, indeed, intentional wrongdoing, fraudulent, malicious, and prompted by the sinister intention of one acting in bad faith. At the very least, this poses a question of fact and the jury should determine whether Conduit's conduct was sufficiently egregious as to pierce the limitation of liability clause. Conduit did not adduce evidence sufficient to prevail at summary judgment on this point.

Furthermore, the District Court erred by taking evidence presented by Conduit as undisputed, when, in fact, MPC strenuously disputed such evidence. The Court held that MPC's evidence did not support MPC's argument that Conduit "secretly implemented a program under which [it] skimmed 10% [off] the top of all revenue it received." SA-12 *(MPC I at 12).* The District Cout found that, actually, MPC "benefited by receiving more revenue from the toolbar." *Id*. This is simply not the case. MPC presented evidence at summary judgment to show that, even taking the full impact of the screening practice into account, Conduit intentionally underpaid MPC by $413,683 by secretly lowering the revenue share percentage owed to MPC. JA-267 *(MPC Facts ¶ 28); Pl.'s Mem. In Supp. Of Its Mot. for Recons. [Dkt No. 98]* at 6 ("The comparison by MPC's expert of the amount that Conduit paid to MPC pursuant to its secret calculations (which includes any "benefit" Conduit allegedly provided) and the amounts Conduit should have paid MPC if Conduit was using the agreed-upon revenue share

percentages show that Conduit failed to pay MPC $413,683 for the period January 31, 2008-October 15, 2009."). Moreover, the District Court made this finding, even though it stated in a later order that it "had made no factual findings at all." SA-31 *(MPC II at 15 ("As I had made no factual findings at all – having only interpreted a provision of a contract, which appeared unambiguous – I denied the motion for reconsideration on November 2, 2011)).* Thus, as a matter of law, the District Court could not have resolved this issue by making "no factual findings" because this issue depends on a finding of fact. The District Court therefore clearly erred. Accordingly, at the very least, a genuine dispute of fact exists must be resolved at trial.

II. The Court Abused Its Discretion by Refusing to Allow MPC to Present Punitive Damage Evidence

In New York, punitive damages are available "where a defendant's conduct has constituted gross, wanton, or willful fraud or other morally culpable conduct to an extreme degree." *Getty Petroleum Corp. v. Island Transp. Corp.*, 878 F.2d 650, 657 (2d Cir. 1989). In its Order dated March 30, 2012, the Court found for MPC on its common law trademark infringement and unfair competition, stemming from Conduit's post-termination use of the MPC trademark. SA-56 *(MPC II at 40).* The Court held that whether punitive damages should be awarded raises a question for the jury. SA-61 *(Id. at 45).*

However, the Court never allowed MPC to present its punitive damages evidence and did not charge punitive damages instructions to jury. At trial, MPC sought to introduce evidence of Conduit's egregious conduct prior to termination of the Revenue Share Agreement to demonstrate Conduit's pattern of wrongdoing and extreme misdeeds. *See* JA-459 *(MPC's Third Supplemental Designations of Deposition Transcript Testimony [Dkt No. 182])*; *see* JA-128-261 *(Excerpts from Deposition Testimony of Amir Nahmias).*[5] Essentially, MPC sought to demonstrate that Conduit's pre-termination conduct[6] and post-termination conduct are part of the same pattern of egregious conduct and that MPC should be awarded punitive damages.

Among its other evidence, MPC sought to present and did proffer the deposition transcript testimony of Amir Nahmias, Conduit's 30(b)(6) witness. In his testimony, Nahmias repeatedly admits that Conduit dramatically underpaid MPC during the term of the Revenue Share Agreement. JA-242 *(Nahmias Dep. at 382:8-20 ("Q: . . . that page shows that on November 2nd, 2008, Conduit was, in fact, paying MyPlayCity a 50 percent revenue share . . . not 65 percent? . . . A: Yes, correct.)); JA-249-252 (id. at 389:7-392:25).* Nahmias's excuse was that this

[5] Because Conduit refused to present its 30(b)(6) witness to testify at trial, MPC had to rely on his deposition transcript testimony.

[6] Punitive damages for Conduit's pre-termination conduct was not available because all such conduct fell under MPC's breach of contract claim, which does not allow for recovery of punitive damages absent extreme circumstances.

was a result of a "misunderstanding" or "miscommunication." JA-242 *(Nahmias Dep. at 382:21-24); JA-249 (id. at 389:7-20).* However, as MPC's evidence shows, this was not a misunderstanding – instead, Conduit intentionally lowered MPC's revenue share in direct contravention of the Revenue Share Agreement. Furthermore, Nahmias testified that Conduit used screening to secretly adjust MPC's revenue share and never disclosed this practice to MPC. JA-146 *(Id. at 58:9-11 ("Q. Did you tell MyPlayCity that you were making changes in their screening? A. No."));* JA-184-185 *(id. at 156:6-157:4);* JA-229-230 *(id. at 336:22-337:1).* Conduit also admitted that it manipulated MPC's revenue share in order to apply pressure on MPC to enter into a new agreement with Conduit. JA-293 *(Exh. A (CONDUIT008021) to Decl.of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Letter from Nahmias to Gen, Boyden dated September 16, 2009) ("Please take [MPC's] toolbars down to 50% with the regular screening. Hope you can do it before midnight . . . I want them to feel the heat."));* JA-197 *(Nahmias Dep. 190:6-17 ("Q. So by "heat," do you mean effort that Conduit put into the relationship? A. No, by taking them down to 50 percent, plus regular screening, meaning they will generate much less revenue they were used to generate, and maybe they will understand how much effort we put and how much, you know, where these relations could go. Q. So by having their revenue decreased, they are going to feel the heat of having less money, correct? A. Correct.")).* MPC sought to argue that

this, and other evidence, shows that Conduit's pre-termination conduct extends to the post-termination period. In short, Conduit continued to take advantage of MPC during the post-termination period in the same manner as it did prior to termination of the Revenue Share Agreement

However, MPC was not given a chance to present its evidence. After reviewing the extensive evidence that MPC sought to present over its lunch break, the District Court ruled that it was not going to charge punitive damages. The District Court reasoned that:

> [t]he only reason for introducing evidence of pre-termination behavior is to establish pattern and practice or recidivist tendency, thereby making what is arguably punitive conduct the more clearly punitive conduct but the underlying conduct has to be punitive in the first place. For the behavior that underlies the lawsuit which in this case is the six months' misuse of MyPlayCity's trademark caused which caused MyPlayCity economic but not reputational damage, when that conduct is not sufficiently reprehensible to warrant a charge of punitive damages. There is no basis under *State Farm* [*Mutual Auto. Ins. Co. v. Campbell*, 538 U.S. 408 (2003)] to introduce evidence of pre-termination conduct.

JA-607 *(Tr. at 329:6-16).*

The District Court abused its discretion in making this ruling.

Conduit's misconduct and wrongdoing during the term of the Agreements (i.e. prior to Conduit's termination thereof) is directly relevant to MPC's punitive damages claim, specifically MPC's burden of showing that Conduit's post-termination "offense is part of a pattern of similar wrongdoing of substantial

duration or frequency, rather than an accident or isolated incident" and its "extreme misdeeds entail repeated acts known by the offender to be unlawful or from which he derived substantial illicit profits." *TVT Records v. The Island Def Jam Group*, 279 F. Supp. 2d 413, 436 (S.D.N.Y. 2003) *rev'd on other grounds*, 412 F.3d 82 (2d Cir. 2005); *see also State Farm Mutual Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 155 L., 123 S. Ct. at 1513 1519 (2003); *TXO Prod. Corp. v. Alliance Res. Corp.*, 509 U.S. 443, 490, 125 L. Ed. 2d 366, 113 S. Ct. 2711 (1993).

The court in *TVT Records*, 279 F. Supp. 2d at 436, examined elements to be weighed in assessing the limits of a punitive damages award. These elements were: (a) the reprehensibility of the underlying offense determined by (i) the characteristics of the acts constituting misconduct, (ii) the type and extent of the pertinent injuries, actual and potential; and (iii) the nature of the parties and their relationships to each other and to the alleged unlawful conduct giving rise to the action; (b) the proportionality of the punitive award in relation to the relevant harms and the compensatory damages the verdict allocates to redress them; and (c) aggravating or mitigating circumstances or conduct, including those arising during the course of the underlying litigation or other related proceedings. *TVT Records*, 279 F. Supp. 2d at 437. When determining the "reprehensibility" factor, *TVT Records* examined whether the "offense is part of a pattern of similar wrongdoing of substantial duration or frequency, rather than an accident or isolated incident"

and "whether the extreme misdeeds entail repeated acts known by the offender to be unlawful or from which he derived substantial illicit profits." *TVT Records* 279 F. Supp. 2d at 436; *see also State Farm,* 123 S. Ct. at 1521. Such determination necessitates an examination of the full spectrum of Conduit's and MPC's relationship, and not merely Conduit's post-termination conduct.

Similarly, when examining factor (c) the court went on to state that "this criterion encompasses a defendant's similar acts of wrongdoing previously committed, and other related misconduct or events that may have occurred after the offense at issue, as *well as actions taken during the course of the underlying litigation that may demonstrate a continuation of the offender's same course of conduct intent, bad faith or other relevant states of mind*." *TVT Records* 279 F. Supp. 2d at 439 (emphasis added). The court noted that "such additional behavior may serve to enlarge the amount of any punitive award the fact-finder considers in fixing the scope of the remedy." *Id.* Conduit's conduct during the term of the Agreement unequivocally is relevant to showing that its wrongdoing is "*part of a pattern*" or that "*the extreme misdeeds entail repeated acts known by the offender to be unlawful or from which he derived substantial illicit profits*" or "*demonstrate[ing] a continuation of the offender's same course of conduct intent, bad faith or other relevant states of mind."*

In *State Farm*, the Supreme Court went on to state that for purposes of this inquiry, the punitive damages awarded cannot take into account "other parties' hypothetical claims against a defendant . . . ." *Id.* at 1523. Thus, a punitive remedy cannot embody multiple awards of damages relating to the same conduct. *See Id.* This is not the case here. MPC offered evidence of Conduit's pre-termination wrongdoing for purposes of showing "*part of a pattern*" and "*demonstrate[ing] a continuation of the offender's same course of conduct intent, bad faith or other relevant states of mind*," and "*not other parties' hypothetical claims against a defendant*."

During the term of the Revenue Share Agreement, Conduit engaged in egregious conduct, which was symptomatic of the type of conduct Conduit exhibited in the post-termination period. This egregious conduct was exhibited in a variety of ways.

Conduit persisted in refusing to allow MPC access to their revenue share information during the term of the Revenue Share Agreements. Pursuant to the Revenue Share Agreements, Conduit was also obligated to provide MPC information through Conduit's website informing MPC of the revenue Conduit was receiving from Google for the MPC Toolbars. As set out in Section 2(b) of the Revenue Share Agreement:

> Data Tracking- Conduit shall provide Publisher [MPC] with access to online pages hosted on Conduit's server in which Publisher [MPC]

> can track revenues of MyPlayCity and MyPlayCityRU Toolbars. Conduit shall update the data on this page at least once a week. Conduit shall not be responsible for temporary inaccuracy or unavailability of such data.

JA-476 *(DX-3 at 1)*

First, systematically throughout the course of the contract, Conduit deliberately but covertly understated the revenue data on its web site to mislead MPC into believing that Conduit was turning over to MPC its proper share of the revenues from MPC's own content. JA-265-268 *(MPC Facts at ¶¶ 21, 23-32).* While on the one hand Conduit promised MPC that it was increasing MPC's revenue share percentage under the agreement and paying MPC based on this increased revenue share (JA-265 *(MPC Facts at ¶ 19)*), in fact Conduit was knowingly not paying MPC pursuant to those agreed revenue shares. JA-269 *(MPC Facts at ¶ 38).* In other words, Conduit lied.

To add insult to injury, Conduit also blocked MPC's access to the Data Tracking information related to its revenues out of malice, simply to make MPC "sweat."

"Amir, Brock, whats [sic] going on? The community toolbar name or password is incorrect. we didn't get any notifications from you about it. the same for our partners. Please clarify. Thanks!"

> JA-277 *(Exh. A (CONDUIT004608) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Email from Alexander Rodichev, MPC, to Amir Nahmias and Brock Kaye, Conduit, October 23, 2009)).*

"FYI, I asked Brock to not respond to this email for now. . . we'll contact them mid next week Thanks, Amir."

> JA-277 *(Exh. A (CONDUIT004608) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Email from Alexander Rodichev, MPC, to Amir Nahmias and Brock Kaye, Conduit, October 23, 2009)).*

"Excellent Let them sweat. Adam."

> JA-277 *(Exh. A (CONDUIT004608) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Email from Alexander Rodichev, MPC, to Amir Nahmias and Brock Kaye, Conduit, October 23, 2009)).*

Conduit also manipulated the revenue out of malice. As internal emails provided by Conduit show, Conduit was seeking to cause harm to MPC by deliberately manipulating the revenue amounts it disclosed to "these fuckers," *i.e.*, MPC.

"Please increase screening for myplaycity CT1392740 by 2%."

> JA-286 *(Exh. A (CONDUIT008005) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Email from Amir Nahmias, Conduit, to Roy Gen, Conduit, July 30, 2009)).*

"With great pleasure (-:."

> JA-286 *(Exh. A (CONDUIT008005) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Email from Amir Nahmias, Conduit, to Roy Gen, Conduit, July 30, 2009)).*

"I'm also pleased to start this process with these fuckers. . ."

> JA-286 *(Exh. A (CONDUIT008005) to Declaration of Kevin Garden dated April 4, 2011 [Dkt No. 66] (Email from Amir Nahmias, Conduit, to Roy Gen, Conduit, July 30, 2009)).*

In fact, when this conduct was described to Conduit's own expert in this case during his deposition, he said that it was unethical. JA-268 *(MPC Facts at ¶ 33);* JA-307 *(see Exh. D to Decl. of Kevin Garden dated April 4, 2011 [Dkt No. 66] (deposition testimony of Ryan Berryman, who has been designated by Conduit as its expert testifying witness, stating that deliberately but secretly changing revenue amounts "doesn't seem ethical"))*.

This is precisely the type of conduct that Conduit engaged in during the post-termination period when it used MPC's trademark, without permission, while keeping all revenue generated from the mark for itself.

Furthermore, the District Court erred when it found that "the behavior that underlies the lawsuit which in this case is the six months' misuse of MyPlayCity's trademark . . . . [is] not sufficiently reprehensible to warrant a charge of punitive damages." JA-579-580 *(Tr. at 327:24-328:1)*. In fact, Conduit's conduct during this post-termination period was sufficiently reprehensible to warrant punitive damages. At summary judgment, the District Court found that Conduit "clearly" did not have MPC's consent to continue distributing the MPC Toolbars after termination of the Revenue Share Agreement. "By terminating the Publisher Agreement – which it did – Conduit unequivocally terminated its licensed right to display MPC's mark on the [MPC] Toolbars." SA-50 *(MPC II at 34)*. Neither was Conduit's position that it had a right to use MPC's mark, and retain all of the

revenue from that use, in the least justifiable. The District Court held that the Revenue Share Agreement was "utterly unambiguous" – once Conduit terminated that agreement, it no longer had any right to use the MPC trademark. SA-55 *(Id. at 39).* "The language of the Agreement was clear and unambiguous enough to be understood by even the least sophisticated party." SA-80 *(Decision and Order Den. D.'s Mot. for Recons. [Dkt No. 122] at 16).* The District Court found Conduit's justifications for using the MPC mark during the post-termination period to be "absurd" and "patently ridiculous" and "patently unreasonable." SA-78, 80, 92 *(Id. at 14, 16, 28).* The District Court held that it was impossible for Conduit to believe, in good faith, that it had any right to use MPC's mark after termination of the Revenue Share Agreement "let alone to keep the revenue that were collected thereby." SA-81 *(Id. at 17).*

The District Court's findings were clear: "Conduit had no right to enrich itself by collection of money through use of MPC's proprietary marks." SA-92 *(Id. at 28).* Conduit, however, continued to blatantly and contemptuously disregard MPC's intellectual property rights and continued make use of MPC's mark, and derive revenues therefrom, even after MPC put Conduit on notice of its wrongdoing. Given this conduct and based on Conduit's blatant disregard for MPC's intellectual property rights, the District Court "that there is ample evidence of bad faith, and no evidence of lack of bad faith to counter it." SA-56 *(MPC II at*

40). When coupled with Conduit's egregious conduct pre-termination conduct, Conduit's conduct in fact does evidence that gross, wanton, or willful fraud or other morally culpable conduct to an extreme degree, sufficient to allow a jury to hear evidence of such conduct, both pre and post termination.

By not permitting MPC to put forth its case for why Conduit's conduct was egregious so as to warrant an award punitive, the District Court essentially put big corporations on notice that they are free to wantonly disregard the intellectual property rights of small companies and that, in the event they get caught, they will only have to give back a small portion of their illicit gains. In light of the scope of Conduit's wrongdoing, during both the pre-termination and post-termination periods, MPC requests that it be permitted to present evidence of punitive damages to the jury so that they can make a decision as to whether the egregious nature of Conduit's conduct warrants a punitive damages award.

CONCLUSION

In light of the foregoing, MPC ask that this Court find that: (1) the limitation of liability clause is not enforceable to limit Conduit's liability for its breach of contract; (2) the case must be remanded so that MPC can present evidence of its breach of contract damages; (3) MPC has alleged sufficient facts to show that Conduit is liable for punitive damages; and (4) the case must be remanded so that MPC can present evidence to demonstrate Conduit's liability for punitive damages.

Respectfully submitted,

/s/ Kevin R. Garden

Dated: October 30, 2013

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CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitations of Fed. App. P. 32(a)(7)(B) because it contains 11,285 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii).

This brief complies with the typeface requirements of Fed. R. App. P. 32(a)(6) and the type style requirements of Fed. R. App. P. 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Microsoft Word 2010 in 14-point Times New Roman font.

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CERTIFICATE OF SERVICE

I hereby certify that on January 16, 2014, I will electronically file the foregoing with the Clerk of Court using the CM/ECF system, which will then send a notification of such filing (NEF) to the following:

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