

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

MPAY Inc.,

Civ. No. 19-704 (PAM/BRT)

Plaintiff,

v.

MEMORANDUM AND ORDER

Erie Custom Computer
Applications, Inc., and
Payroll World, Inc.,

Defendants.

This matter is before the Court on Defendants' Motion to exclude two of Plaintiff's expert witnesses. For the following reasons, Defendants' Motion is denied.

BACKGROUND

This copyright and trade-secret action involves software source code for payroll systems. The Court has set forth the background of the parties' dispute in previous Orders and will not repeat that background here. (See Docket Nos. 61, 532.) After dispositive-motion-practice, what remains in the case is whether the parties' agreements allowed the two remaining Defendants to sublicense Plaintiff MPAY, Inc.'s software to two entities they control, StarrLee and Taslar. If the agreements did not allow that sublicensing, the jury must determine whether Defendants' activities constituted infringement of MPAY's copyrights in its software, misappropriation of MPAY's trade secrets, and other related claims. This second inquiry will include whether MPAY's copyrights are valid in the first instance.

In the instant Motion, Defendants challenge two of MPAY's expert witnesses: Frances McCloskey, who opines on the issue of damages, and Dr. Martin Walker, whose opinion focuses on copyright infringement.

DISCUSSION

MPAY bears the burden, as the proponent of expert testimony, to establish the admissibility of the testimony by a preponderance of the evidence. Lauzon v. Senco Prods., Inc., 270 F.3d 681, 686 (8th Cir. 2001). When faced with a motion to exclude an expert witness's opinions, the Court must evaluate the testimony to ensure that only relevant and reliable testimony is admitted under Fed. R. Evid. 702. Daubert v. Merrell Dow Pharm., Inc., 509 U.S. 579, 589 (1993). But this "gatekeeper role . . . is not intended to supplant the adversary system or the role of the jury: '[v]igorous cross-examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence.'" Allison v. McGhan Med. Corp., 184 F.3d 1300, 1311 (11th Cir. 1999) (quoting Daubert, 509 U.S. at 596). Indeed, expert testimony should be excluded only if it "is so fundamentally unsupported that it can offer no assistance to the jury." Bonner v. ISP Techs., Inc., 259 F.3d 924, 929-30 (8th Cir. 2001).

The Eighth Circuit recently emphasized that "excluding an expert's opinion for being fundamentally unsupported is an exception to the general rule that '[g]aps in an expert witness's . . . knowledge' go to weight, not admissibility." In re: Bair Hugger Forced Air Warming Devices Prods. Liab. Litig., --- F.4th ---, 2021 WL 3612753, at *5 (8th Cir. Aug. 16, 2021) (quoting Robinson v. GEICO Gen. Ins., 447 F.3d 1096, 1100 (8th Cir.

2006)). “The standard for judging the evidentiary reliability of expert evidence is lower than the merits standard of correctness.” Id. at *4 (quotations omitted). And as the court noted, “‘cases are legion that, correctly, under Daubert, call for the liberal admission of expert testimony.’” Id. (quoting Johnson v. Mead Johnson & Co., 754 F.3d 557, 562 (8th Cir. 2014)).

A. Frances McCloskey

Defendants seek to exclude several opinions offered by Frances McCloskey, a certified public accountant and financial consultant. However, as MPAY points out, the Court’s summary-judgment ruling renders moot Defendants’ challenge to what Defendants refer to as Ms. McCloskey’s “Opinion 2,” which calculates damages allegedly arising out of Defendants’ use of MPAY’s source code. Thus, only two opinions are at issue here: “Opinion 1,” asserting that Defendants are liable for lost-profit damages attributable to customers leaving MPAY for Taslar; and “Opinion 2,” which calculates damages on a joint-and-several disgorgement theory for Defendants’ alleged contributory and vicarious infringement by virtue of the sublicenses to StarrLee and Taslar.

Federal copyright law provides that a copyright infringer is liable for “the copyright owner’s actual damages and any additional profits of the infringer.” 17 U.S.C. § 504(a)(1).

The statute further provides that

[t]he copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer’s profits, the copyright owner is required to present proof only of the infringer’s gross revenue, and the infringer is required to prove his or her deductible expenses

and the elements of profit attributable to factors other than the copyrighted work.

Id. § 504(b). Thus, while the burden to establish damage causation rests with the copyright owner, the burden to establish apportionment of damages between infringing and non-infringing uses remains with the infringer.

1. Lost-Profit Damages

There is no dispute that ten former MPAY customers are now customers of Taslar. Ms. McCloskey opines that MPAY is entitled to all of Taslar's profits from these ten entities, including past lost-profit damages of nearly \$5 million, and future damages ranging from \$1.8 million to \$13.8 million, depending on the length of time to which the jury believes future lost-profit damages should extend.

Defendants' main opposition to Ms. McCloskey's testimony is that she ostensibly did not account for record evidence that these ten entities were dissatisfied with MPAY and would have left MPAY with or without Taslar's involvement. But it is not for the expert to weigh this evidence; evidence-weighting is the province of the jury. Defendants' argument in this regard provides a basis for cross-examination, not exclusion.

Defendants also argue that Ms. McCloskey's opinion as to future lost-profit damages should be excluded because it is speculative, arbitrary, and seeks damages unavailable in copyright actions. Ms. McCloskey calculated lost-profit damages until 2030. Defendants argue that this is not based on any contractual provision, but Ms. McCloskey did not purport to opine as to whether any particular duration of future lost profits was warranted. Rather, she calculated the present value of lost profits for each year

until 2030. It will be for the jury to determine the duration of future lost-profit damages, if any. Defendants have not established that Ms. McCloskey's opinions are so unreliable as to provide no assistance to the jury, and their Motion to exclude her lost-profit damages opinions is denied.

2. Disgorgement Damages

Defendants briefly argue that Ms. McCloskey's third opinion should be excluded. This opinion calculates the amount of profit StarrLee and Taslar have reaped from the ten companies that left MPAY for Taslar, and attributes those amounts to Defendants for their alleged contributory and vicarious infringement. According to Defendants, MPAY must seek these alleged profits from the non-party entities, not from Defendants.

But “[r]egardless of whether the disputed profits were earned in part by non-parties, the relevant issue is whether any such profits may fairly be considered profits of the infringer subject to [MPAY's] disgorgement claim.” Fair Isaac Corp. v. Fed. Ins. Co., 447 F. Supp. 3d 857, 882 (D. Minn. 2020) (Wright, J.). And “the law does not preclude [a copyright owner] from seeking to disgorge certain profits that, although earned by non-parties, may nonetheless belong to [the infringer]. Id. at 883 (citing, inter alia, Nelson-Salabes, Inc. v. Morningside Dev., LLC, 284 F.3d 505, 517 (4th Cir. 2002) (recognizing that defendants may be jointly liable for profits “collectively derived from the acts of copyright infringement”)).

While Defendants fault MPAY for not seeking to join Taslar or other entities in this action, the law is clear that MPAY is not required to pursue all potential defendants in a single action. More importantly, though, MPAY likely has no infringement claims directly

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