UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.:	8:19-cv-01987-SB-DFM	Date:	April 12, 2022

Title: *MSC.Software Corp. v. Héroux-Devtek Inc.*

Present: The Honorable **STANLEY BLUMENFELD, JR., U.S. District Judge**

Jennifer Graciano	N/A
Deputy Clerk	Court Reporter
Attorney(s) Present for MSC:	Attorney(s) Present for HDI:
None Appearing	None Appearing

Proceedings: [In Chambers] ORDER DENYING HDI'S RENEWED MOTION FOR JUDGMENT AS A MATTER OF LAW

This case involves a commercial dispute over a licensing agreement. MSC.Software Corporation (MSC) originally licensed its software to HDI Héroux-Devtek, Inc. (HDI) under an agreement that provided technical and other support. The parties subsequently entered into a new agreement when HDI sought to reduce the yearly fees required for the supported software. The new agreement required HDI to delete the original software files. HDI admittedly failed to delete those files and then subsequently used them to access the software and obtain support. At trial, MSC claimed that HDI saved approximately $1.4 million by failing to pay for the use of the software files that should have been deleted. A jury agreed, finding HDI liable for breach of contract and intentional misrepresentation, and awarded the amount sought by MSC. Before the Court is HDI's renewed Motion for Judgment as a Matter of Law (JMOL). Dkt. No. 107. MSC filed an opposition, Dkt. No. 116, and HDI timely replied, Dkt. No. 119. The Court found this matter suitable for resolution without oral argument. Fed. R. Civ. P. 78; L.R. 7-15. For the reasons stated below, HDI's Motion is **DENIED**.

I. BACKGROUND

Plaintiff MSC is a software developer that licenses its software products to engineering and manufacturing firms. The software allows engineers to create a virtual representation of the products they intend to design and construct. MSC offers two types of software licenses—maintained and unmaintained. A maintained license provides customer support, including technical support, software upgrades, and transfer rights (i.e., the ability to transfer the software from one server to another upon payment of an administrative fee). An unmaintained license, by contrast, is an "as is" license that allows for use without any support, upgrades, or transfer rights.

MSC licenses its software products through a system of capacity-based "tokens" (a.k.a. "authorization codes"). Tokens provide access to its suite of software; and increased access, or capacity, is achieved by purchasing a greater number of tokens. The number of tokens used to access the software depends on several factors, including the type of software accessed, the particular use of the software, and the number of users accessing the software at the same time. For example, a single user who performs a certain engineering analysis with MSC Software X will use 250 tokens—a number that gets multiplied if multiple users are performing the same analysis with the same software. And users may simultaneously utilize more than one licensed software product, which further draws on the overall token capacity. When the user closes the software file, the tokens previously in use become available. The number of tokens purchased by a customer depends on the customer's perceived needs (e.g., a customer may desire greater capacity if it often has multiple engineers using the software simultaneously). The decision whether to purchase maintained or unmaintained tokens is likewise driven by a customer's perceived needs. The cost to purchase the two types of licenses is the same, but a maintained license requires an annual fee of $94 per token for the added benefits.

In 2003, MSC contracted with HDI to provide access to software and maintenance for its engineering needs. HDI purchased a license for 1,560 maintained tokens that were installed on a server identified as "165-B." HDI continued to pay the maintenance fee for these 1,560 tokens through 2013. In 2014, HDI asked MSC if it could continue to have access to 1,560 tokens but reduce the number of maintained tokens to 520. The requested reduction, if permitted, would allow HDI to avoid the maintenance costs on 1,040 tokens. MSC agreed, and the parties entered into a new contract.

Pursuant to the new contract, MSC issued HDI two entirely new license files: one for 520 maintained tokens that would be installed on server 165-B, and another for 1,040 unmaintained tokens that would be assigned to a different server, named F-31. In exchange, HDI agreed to: (1) delete—and never use—the original 1,560 tokens on server 165-B; and (2) not seek maintenance, including upgrades and technical support, for the unmaintained tokens. The two new sets of tokens were placed on different servers because it is not technically possible to operate two separate license files on the same server. To restore maintenance coverage, MSC charges a 25% reinstatement fee and back maintenance—e.g., if a customer purchases unmaintained tokens in 2010 and requests to convert them to maintained tokens in 2014, MSC will charge the customer the cost of maintenance from 2010 to 2014.

In September 2015, HDI requested that MSC transfer the 520 maintained tokens from server 165-B to server A3A. MSC agreed because HDI had the contractual right to transfer maintained tokens. HDI also made additional technical support requests between 2014 and 2019.

In September 2018, MSC began to suspect that HDI had access to more than 1,560 tokens. MSC asked HDI to send the license file on its server. HDI did so, and MSC discovered that the original 1,560 tokens that HDI promised to delete were present. MSC's employee, Aaron Shank, reported to his colleagues that HDI had access to over 2,000 tokens, even though it was only paying for maintenance on 520 tokens. In December 2018, Mr. Shank visited HDI's facility. During the visit, he confirmed that HDI had not deleted the original 1,560 token license file on server 165-B as required by the parties' agreement. HDI's engineers were using the original 1,560 tokens licensed on server 165-B and had access to the 520 maintained tokens on server A3A.[1] Mr. Shank requested that HDI delete the original license file, but HDI refused, claiming that doing so would disrupt its engineering operations.

In early 2019, an HDI employee, Walid Assi, investigated the company's use of the tokens. In an email reporting his findings, Mr. Assi explained that HDI had lost access to server F-31 in 2015, resulting in the loss of use of the 1,040

[1] Prior to April 2019, there were four downloads of updated software that could only be used with the 520 maintained tokens. According to Defendant, the downloads were all for testing purposes, and its engineers did not use the updated software versions.

tokens. Faced with this dilemma, HDI elected to "work around" the problem by using the original 1,560 tokens that were supposed to be deleted. HDI did not delete the original 1,560 tokens until April 2019, after receiving a cease and desist letter.

In October 2019, MSC commenced this action, asserting claims for: (1) breach of contract; (2) intentional misrepresentation; (3) negligent misrepresentation; and (4) unfair business practices under California Business & Professions Code § 17200. Compl., Dkt. No. 1. A jury trial was held in September 2021, and MSC sought more than $1.4 million in damages. At trial, MSC's head of global compliance, Daniel Heckman, calculated MSC's damages in the following approximate amounts: (1) $600,000 for the price of the original 1,560 tokens, representing what HDI would have been required to pay if it had deleted the tokens (as required by the parties' agreement) and then sought to reinstall them; (2) $500,000 in back maintenance for the original 1,560 tokens; (3) $98,000 in back maintenance for the 1,040 tokens; and (4) $217,000 in license and maintenance fees for the two "fatigue" licenses.[2]

At the close of evidence, HDI moved for JMOL. HDI argued that MSC's restitution-based damages theory for breach of contract failed because there was no evidence that HDI ever used more than 1,560 tokens or sought maintenance on more than 520 tokens.[3] HDI agreed with the Court that its argument presupposed an absence of evidence of beneficial access or use in excess of the 520 maintained and 1,040 unmaintained tokens. The Court denied HDI's motion, and the jury rendered a unanimous verdict in favor of MSC on its breach of contract and intentional misrepresentation claims. The jury found that HDI had unjustly retained a benefit valued at $1,414,960 and awarded that amount to MSC in damages. Dkt. No. 94. HDI now brings this renewed motion for JMOL or, in the alternative, a new trial.[4]

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[2] The fatigue licenses are part of the original 1,560 token package that Defendant was required to delete but are considered products separate from the pool of tokens and do not affect the usage of the 1,560 tokens.

[3] Defendant also moved for JMOL based on the statute of limitations but does not raise this argument in its renewed motion for JMOL.

[4] Defendant alternatively moves the Court to alter or amend the judgment under Rule 59(e). "Here, no final judgment has been entered; therefore, Rule 59(e) is not applicable." *Arceo v. Salinas*, No. 2:11-cv-2396 MCE KJN P, 2016 WL 6897226, at *2 (E.D. Cal. Nov. 23, 2016).

II. DISCUSSION

A. Renewed Motion for Judgment as a Matter of Law

To obtain judgment as a matter of law, the moving party must demonstrate that "the evidence, construed in the light most favorable to the nonmoving party, permits only one reasonable conclusion, and that conclusion is contrary to that of the jury." *White v. Ford Motor Co.*, 312 F.3d 998, 1010 (9th Cir. 2002) (internal quotation marks omitted). HDI argues that because MSC presented no evidence that HDI used more than 1,560 tokens, the jury could not reasonably conclude that HDI received an unjust benefit.[5] This argument neglects to view the trial evidence in the light most favorable to MSC.

The jury heard evidence that HDI failed to delete the original 1,560 tokens as required and then devised a strategy to reinstall them to "work around" a problem created when it lost access to the 1,040 unmaintained tokens in 2015. The upshot of this strategy was that: (1) HDI used the original 1,560 tokens that it knew it had no right to use; (2) HDI had access to 520 additional tokens, increasing its operational capacity to 2,080 tokens; (3) HDI made numerous technical support requests between 2014 and 2019; and (4) HDI refused to delete the original tokens when confronted about their improper use because doing so would seriously disrupt its operations. Taken together, this evidence permits a reasonable inference that HDI benefited from the improper use of the original 1,560 tokens that it had agreed to delete. By failing to delete the tokens, HDI undisputedly breached the 2014 agreement. And the jury reasonably could conclude that HDI unjustly benefited from the use of the 1,560 tokens—which were undisputedly necessary for its engineering work. The jury also reasonably could conclude that HDI had beneficial access to, if not use of, the additional capacity afforded by the transfer of the 520 tokens from server 165-B to server A3A.

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[5] Defendant improperly raises new arguments not presented at trial. Motion at 8–10; *see also Freund v. Nycomed Amersham*, 347 F.3d 752, 761 (9th Cir. 2003) ("A party cannot raise arguments in its post-trial motion for judgment as a matter of law under Rule 50(b) that it did not raise in its pre-verdict Rule 50(a) motion."). The Court will consider the new arguments only as part of the motion for a new trial under Rule 59.

While HDI argues that it did not use more than 1,560 tokens (or 520 maintained tokens) at any one time, this argument overlooks the fact that HDI had no right to use any of the original 1,560 tokens. That is, HDI was not free to use any tokens it wanted so long as it did not exceed the use of 520 maintained and 1,040 unmaintained tokens at one time. Instead, the 2014 agreement obligated HDI to delete the original 1,560 tokens, thereby forever forfeiting their use. The agreement stated:

> [HDI] shall permanently erase prior sets of authorization codes issued for the same Software licenses and take all other necessary precautions to ensure that the Software is no longer accessed or used with prior authorization codes.

Opp. at 3 n.1. HDI received substantial consideration in exchange—namely, two new license files that considerably reduced the amount of yearly maintenance fees.

Once the jury found that HDI had illegally used the 1,560 tokens, the next question presented was the value of the benefit obtained by that use. Dkt. No. 94. The jury was instructed that "a benefit is conferred not only when one adds to the property of another, but also when one saves the other from expense or loss." Jury Instructions ¶ 14. Mr. Heckman testified about the expense HDI saved by using the file that it was contractually bound to delete, claiming a total savings of approximately $1.415 million. He started with the book value of the tokens for which HDI should have paid when it used the original 1,560 tokens, which amounted to approximately $600,000 (at the rate of $390 per token). He next explained that HDI would have had to pay back maintenance for the use of those 1,560 tokens, which amounted to approximately $500,000. Mr. Heckman also included back maintenance for the 1,040 tokens until the end of 2015, when HDI lost access to them, which amounted to approximately $98,000. MSC claimed that back maintenance was owed on the 1,040 tokens because HDI illegally used the 1,560 tokens to "work around" having to pay the maintenance fees on the 1,040 tokens it wanted to transfer to another server. Finally, Mr. Heckman testified that the fatigue licenses were part of the original 1,560 license file that HDI was required to delete but subsequently reinstalled, and that HDI would have had to pay $217,000 to reinstall and maintain theses licenses.[6]

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[6] The parties provided limited evidence about the fatigue licenses at trial and provide similarly scant treatment of them in the post-trial briefing.

The jury reasonably could have found, based on the evidence at trial, that HDI breached the agreement when it failed to delete the original 1,560 token file, reinstalled it, and then used it. HDI admitted that it breached the agreement when it failed to delete the original 1,560 license file and offered as a defense that it never used or had access to more than 1,560 tokens at a time. But MSC presented evidence of the fees HDI should have paid for its illegal actions and the costs HDI avoided by keeping and reinstalling the original 1,560 token file. The record permitted the jury to conclude that HDI unjustly benefited from its breach by saving $1.4 million in expenses. Accordingly, the Court **denies** HDI's renewed motion for JMOL.

B. Motion for a New Trial

HDI alternatively argues that a new trial should be granted because (1) MSC changed its theory on the breach of contract and misrepresentation claims at trial, leaving HDI unprepared in its defense; (2) the jury's verdict was excessive; and (3) MSC presented no evidence of "fair market value" for the jury to evaluate damages on MSC's intentional misrepresentation claim.

Under Rule 59, a district court has discretion to grant a new trial based on any "historically recognized" ground, including "that the verdict is against the weight of the evidence, that the damages are excessive, or that, for other reasons, the trial was not fair to the party moving." *Molski v. M.J. Cable, Inc.*, 481 F.3d 724, 729 (9th Cir. 2007) (internal quotation marks omitted). "The judge can weigh the evidence and assess the credibility of witnesses, and need not view the evidence from the perspective most favorable to the prevailing party." *Landes Const.*, 833 F.2d 1365, 1371 (9th Cir. 1987). But a court "may not grant a new trial simply because it would have arrived at a different verdict." *Silver Sage Partners, Ltd. v. City of Desert Hot Springs*, 251 F.3d 814, 819 (9th Cir. 2001). Rather, a court must be firmly convinced that a new trial is necessary to correct a mistake or prevent an injustice. *See Molsi*, 481 F.3d at 729. "In reviewing a jury's damages award, [a court] must uphold the jury's finding of the amount of damages unless the amount is grossly excessive or monstrous, clearly not supported by the evidence, or only based on speculation or guesswork." *L.A. Mem'l Coliseum Comm'n v. Nat'l Football League*, 791 F.2d 1356, 1360 (9th Cir. 1986) (cleaned up).

1. MSC's Trial Theory

HDI first argues that it is entitled to a new trial because MSC advanced a "new" theory of the case that differed from its pretrial position. HDI claims that it was prejudiced by this purported shift because it "made critical decisions regarding the trial exhibits and witnesses needed to defend MSC's articulated claims," and that it would have presented different evidence or called additional witnesses if it had known about MSC's "new" theory. Motion at 8. This argument is unpersuasive.

As an initial matter, HDI cites no authority for the proposition that a new trial is an available remedy for a party that raises for the first time after the jury has rendered a verdict that it was surprised by the opposition's trial strategy. Even if MSC had changed its theory (which is disputed), HDI was aware of the "new" theory at least by the time MSC presented its opening statement. Yet HDI made no claim of surprise or prejudice at the time and took no action to obtain any appropriate judicial relief in the event of any wrongdoing. HDI's belated claim, moreover, rings hollow. HDI now argues it would have called Mr. Assi to testify at trial if it had known that his email would be MSC's focus at trial. But the Assi email—which became the centerpiece of MSC's deliberate "work-around" theory—was listed, and plain to see, on the parties' pretrial joint exhibit list. Dkt. No. 53. It is difficult to imagine that HDI overlooked the email or the obvious arguments flowing from it. It appears instead that HDI made a strategic decision not to call Mr. Assi, perhaps in the hope of minimizing this evidence. But whether this was a strategic decision or an oversight, the outcome here is the same—HDI is not entitled to a new trial because it knew about the email and its author and made no timely claim of surprise and prejudice. *See Ursini v. Menninger Found.*, 384 F. Supp. 158, 162–63 (E.D. Cal. 1974) ("New evidence can be grounds for a new trial or for reconsideration on rehearing only if the moving party has been excusably ignorant of the facts, despite due diligence to learn about them.").[7]

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[7] The core of HDI's case at trial was that the failure to delete the original 1,560 tokens was an "innocent mistake," and that it did not benefit from this mistake. Yet HDI did not produce any witness who had personal knowledge about the failure to delete. Patrice Normandin testified that he believed that Pierre Pinard, HDI's Information Technology (IT) manager, was responsible for implementing the contractual requirement. When pressed, Normandin admitted that he had no personal knowledge about whether the failure to delete the tokens from Server 165-B was intentional or unintentional.

2. Excessive Verdict

HDI argues that the jury's verdict was excessive and resulted in manifest injustice. Motion at 11. HDI does not distinguish its argument for a new trial from its argument for JMOL, relying on the standards for Rule 50 and Rule 59 interchangeably. *Id*. at 11–14. The Court's analysis of HDI's motion for JMOL applies equally here. As the jury could have reasonably found that HDI breached the contract and saved $1.4 million in expenses, the Court finds that a new trial would not be appropriate because the jury's damages award was not grossly excessive, nor did the jury's findings result in manifest injustice.

3. Evidence of Fair Market Value

HDI argues that, although the jury was instructed to determine "fair market value" when calculating damages on MSC's intentional misrepresentation claim, MSC presented no evidence that its requested damages represented "fair market value." Motion at 15–20. Even if HDI were correct, however, the error would be harmless in light of the jury's finding on the breach of contract claim. *Hunt v. Fields*, No. 2:09-cv-3525 KJM AC, 2014 WL 1757211, at *5 (E.D. Cal. May 1, 2014) (noting that "harmless errors do not require a new trial").

The parties submitted an agreed-upon special verdict form. By doing so, the parties agreed that restitution was the proper measure of damages for the breach of contract claim asserted in this case. This is evident from the manner in which the joint verdict form set forth the elements of the contract claim:

1. [Is MSC's contract claim time barred?]
2. Did HDI fail to do something the parties' contract required it to do?
3. Did HDI's action or failure to act cause them to unjustly retain a benefit provided to it by MSC?
4. What is the value of the benefit HDI unjustly retained?

Dkt. Nos. 67 (proposed verdict form), 94 (final jury verdict).

The jury responded that the contract claim was not time barred, that HDI did breach the contract, that HDI was unjustly enriched as a result of the breach, and

that HDI was unjustly enriched by the breach in the amount of $1,414,960. Final Jury Verdict at 2–3. The jury also found that HDI recklessly made a false representation upon which MSC reasonably and detrimentally relied. *Id*. at 3–4. The jury was then asked: "What are MSC's damages," and the jury responded—$1,414,960. *Id*. at 5.

As a preliminary matter, HDI waived any objection to the special verdict form. Fed. R. Civ. P. 51; *see also Ayuyu v. Tagabuel*, 284 F.3d 1023, 1026 (9th Cir. 2002) ("We hold that Rule 51 includes objections to the form of the verdict as well as to any instructions about the use by the jury of the form."). Although HDI disputed the propriety of giving a jury instruction on restitution, its objection to the instruction cannot be squared with its agreement to ask the jury to determine contract damages based on restitutionary principles (i.e., unjust enrichment). Once HDI agreed to ask the jury about restitutionary harm resulting from the breach of contract, it followed that the jury should be instructed on restitution. *See In re Asbestos Cases*, 847 F.2d 523, 524 (9th Cir. 1988) (noting that a trial court commits a prejudicial error if it does not "fairly and correctly" instruct the jury on the applicable law); *see also Carvajal v. Pride Indus. Inc.*, 649 F. App'x 618, 619 (9th Cir. 2016) (holding that a district court did not abuse its discretion because the contested instructions "were necessary to avoid jury confusion" given the plaintiff's theory at trial and the content of the verdict form). And the restitution instruction correctly stated that a benefit is conferred when one party saves another from expense or loss. *See Ajaxo Inc. v. E*Trade Grp. Inc.*, 135 Cal. App. 4th 21, 57 (2005) (finding restitution in the form of money saved by breaching an agreement).

The restitution instruction also appears to be consistent with California law. In California, there is no separate claim for unjust enrichment. *Levine v. Blue Shield of Cal.*, 189 Cal. App. 4th 1117, 1138 (2010). A party seeking to disgorge the illicit gains obtained by another at the aggrieved party's expense must instead pursue a restitutionary remedy. *Id*. California allows for restitution on a contract claim in certain circumstances. One clear circumstance is "when the parties had an express contract, but it was procured by fraud or is unenforceable or ineffective for some reason." *Durell v. Sharp Healthcare*, 183 Cal. App. 4th 1350, 1370 (2010) (cleaned up). But California courts have recognized restitution as an alternative to expectation damages in other circumstances. Most commonly, "[u]nder California law, disgorgement of improperly obtained profits can be an appropriate remedy for breach of a contract protecting trade secrets and proprietary confidential information." *Foster Poultry Farms, Inc. v. SunTrust Bank*, 377 F. App'x 665, 668

(9th Cir. 2010). In reaching this conclusion, California courts have relied on general restitution principles—i.e., that a wrongdoer should not be able to retain illicit profits or savings obtained at the expense of another. *See, e.g.*, *Ajaxo*, 135 Cal. App. 4th at 56. While the precise contours defining the availability of restitution as an alternative remedy for a breach of contract in California are not entirely clear, HDI has not shown that such recovery is not permitted here. *See Artifex Software, Inc. v. Hancom, Inc.*, No. 16-cv-06982-JSC, 2017 WL 4005508, at *4 (N.D. Cal. Sept. 12, 2017) ("But this does not foreclose unjust enrichment as a remedy in circumstances such as the one present here where a party obtained a benefit they would not have otherwise obtained and profited from that benefit without providing a corresponding benefit to the other party."); *see also Alkayali v. Hoed*, No. 3:18-cv-777-H-JMA, 2018 WL 3425980, at *7 (S.D. Cal. July 16, 2018) (recognizing the availability under California law of restitution for breach of an exclusivity agreement). MSC proved not only that HDI unjustly benefited by failing to pay the money it would have owed had it not violated the agreement and concealed its breach, but also that the wrongdoing resulted in a corresponding loss to MSC. Absent authority or analysis demonstrating that this is a flawed theory of recovery, the Court will not disturb the jury's verdict, particularly when HDI acknowledged the viability of a restitutionary remedy in its joint submission of the special verdict form.

The jury's verdict demonstrates that it found MSC's breach of contract claim alone could support the amount of damages it awarded. When asked if HDI's breach caused it to unjustly retain a benefit, the jury answered in the affirmative and valued that benefit at $1,414,960—the same amount it awarded in total damages. Dkt. No. 94. The jury did not find any additional damages based on MSC's intentional misrepresentation claim. *Id*. Accordingly, even if MSC did fail to present sufficient evidence as to the fair market value of the damages it sought on its intentional misrepresentation claim, the failure was harmless and does warrant a new trial. *See Vera-Lozano v. Int'l Broad.*, 50 F.3d 67, 71 (1st Cir. 1995) (holding that an instruction as to damages on a Civil Rights Act claim was harmless error because "the jury's finding that [the defendant] violated Puerto Rico law would alone support the award of compensatory damages"); *Jacobs Mfg. Co. v. Sam Brown Co.*, 19 F.3d 1259, 1266 (8th Cir. 1994) ("[B]ecause the first and second representations were properly submitted to the jury on the fraud theory alone and these representations support the jury's awards of compensatory and

punitive damages, any inconsistency with respect to the third representation was harmless error.").[8]

III. CONCLUSION

For the foregoing reasons, HDI's motion for JMOL or, in the alternative, a new trial, is **DENIED**. MSC is to file a proposed judgment by no later than **April 19, 2022**.

[8] The Court agrees with HDI that MSC has had a hard time articulating its restitution theory in a clear and consistent manner. But the Court cannot say that HDI is entitled to the relief its seeks in this motion based on the theory MSC ultimately presented at trial.