1	MULCAHY LLP			
2	James M. Mulcahy (SBN 213547) jmulcahy@mulcahyllp.com			
3	Kevin A. Adams (SBN 239171)			
4	kadams@mulcahyllp.com			
	Douglas R. Luther (SBN 280550)			
5	dluther@mulcahyllp.com Four Park Plaza, Suite 1230			
6	Irvine, California 92614			
7	Telephone: (949) 252-9377			
8	Facsimile: (949) 252-0090			
9	Attorneys for Plaintiffs and Counter-Defer	ndants		
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11	UNITED STATES DISTRICT COURT			
12	CENTRAL DISTRIC	T OF CALIFOR	RNIA	
13	BENNION & DEVILLE FINE	Case No. 5:15-0	CV-01921 R (KKx)	
14	HOMES, INC., a California	Hon. Manual L	. Real	
15	corporation, BENNION & DEVILLE FINE HOMES SOCAL, INC., a	PLAINTIFFS/	COUNTER-	
16	California corporation, WINDERMERE	DEFENDANTS' MEMORANDUM		
17	SERVICES SOUTHERN		TIONS OF FACT AND	
18	CALIFORNIA, INC., a California corporation,	LAW [L.R. 16	-4]	
19	•	Courtroom:	8	
	Plaintiffs,	Action Filed:	September 17, 2015	
20	v.	Pretrial Conf.: Trial:	September 19, 2016	
21	WINDERMERE REAL ESTATE	IIIai.	October 18, 2016	
22	SERVICES COMPANY, a Washington			
23	corporation; and DOES 1-10			
24	Defendant.			
25	AND DELATED COLINTED CLAIMS		·	
26	AND RELATED COUNTERCLAIMS			
27				
28				

I. INTRODUCTION

Plaintiffs and Counter-Defendants Bennion & Deville Fine Homes, Inc. ("B&D Fine Homes"), Bennion & Deville Fine Homes SoCal, Inc. ("B&D SoCal"), Windermere Services Southern California, Inc. ("Services SoCal"), (collectively, "Plaintiffs") and Counter-Defendants Robert L. Bennion and Joseph R. Deville (all collectively referred to as the "B&D Parties" herein) submit this Memorandum of Contentions of Fact and Law pursuant to C.D. Cal. L.R. 16-4.

II. PLAINTIFFS' CLAIMS [L.R. 16-4.1(a)-(c)]

A. Summary of Plaintiffs' Claims [L.R.16-4.1(a)]

Plaintiffs bring the following claims:

Claim 1 – Breach of Contract: WSC breached its Coachella Valley Franchise Agreement with B&D Fine Homes and Services SoCal.

Claim 2 – Breach of the Implied Covenant of Good Faith and Fair

Dealing: WSC breached the implied covenant of good faith and fair dealing in its

Coachella Valley Franchise Agreement with B&D Fine Homes and Services SoCal.

Claim 3 – Breach of Contract: WSC breached its Area Representation Agreement with Services SoCal.

Claim 4 – Breach of the Implied Covenant of Good Faith and Fair

Dealing: WSC breached the implied covenant of good faith and fair dealing in its

Area Representation Agreement with Services SoCal.

Claim 5 – Breach of Contract: WSC breached its SoCal Franchise Agreement with B&D SoCal and Services SoCal.

Claim 6 – Breach of the Implied Covenant of Good Faith and Fair

Dealing: WSC breached the implied covenant of good faith and fair dealing in its

SoCal Franchise Agreement with B&D SoCal and Services SoCal.

Claim 7 – Violation of the California Franchise Relations Act: Services SoCal brings a claim against WSC for violating California Business and Professions Code Section 20020 (the California Franchise Relations Act).

a reasonable opportunity, which in no event shall be less than 60 days from the date

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of the notice of noncompliance, to cure the failure." Cal. Bus. & Prof. Code § 20020.

C. <u>Brief Description of Key Evidence In Support Of Plaintiffs' Claims</u> [L.R.16-4.1(c)]

Claim 1 – Breach of Contract: As the franchisor of the Windermere brand, WSC was obligated to make available for use by its franchisees and area representatives a fully functional Windermere franchise system. It is both the "system" and the brand that franchisees purchase at the time they contract with Windermere.

While WSC appears to have created a fully functional franchise system for use by its franchisees in the State of Washington — WSC's home state — the system created by Windermere was not transferrable or applicable to franchisees operating in the State of California. For instance, the technology offered by Windermere to its franchisees and necessary for the day-to-day activities of real estate agents did not properly function in connection with California's multiple listing real estate services (*i.e.*, the MLS) — the real estate directories relied upon by all real estate agents in California. Because of this, the B&D Parties were forced to create their own technology, use it in the operation of their businesses, and offer it to other Windermere franchisees in the region. WSC provided little or no support to its California affiliates other than allowing them to use the Windermere brand. Additionally, WSC failed to provide local and regional marketing and advertising support crucial to the success of any franchise system in a competitive marketplace.

WSC's real estate technology was mostly inapplicable and unusable in the Southern California region. In exchange for the technology fees that WSC received it was obligated to provide certain technology services needed by the real estate franchises and their agents to post and manage real property listings and to otherwise carry out their real estate business. However, WSC's technology was inferior. Examples of the shortcomings of WSC's technology include the following:

Properties listed by the Windermere Southern California agents often

did not properly display (if at all) on WSC's websites;

- WSC's technology team was inexperienced at best, often causing numerous unnecessary delays to the posting and visibility of Southern California real estate listings;
- Repeated listing syndication problems for agents' listings on third-party websites, often resulting in extended disruption in the syndication (i.e., publishing) of the listings of Bennion and Deville's agents; and
- The windermere.com website failed to display the listings and/or pictures of real estate listing belonging to numerous Southern California agents.

As such, Plaintiffs were forced to create and offer their own technology services at significant cost and expense. Despite the numerous shortcomings of WSC's technology services and even though Plaintiffs had to use their own technology services, Plaintiffs continued to pay their monthly, non-trivial technology fees in an amount that far exceeded the services provided.

In light of WSC's short comings as a franchisor, WSC breached Section 1 of the Coachella Valley Franchise Agreement by failing to provide the promised "variety of services" designed to enhance Plaintiffs' "profitability".

Similarly, WSC breached Section 2 by failing to provide Plaintiffs with a viable "Windermere System" as defined in the agreement. Again, WSC breached both sections 1 and 2 by failing to provide those services required by the agreement and necessary for the success of a franchisee in a competitive marketplace.

In addition to WSC's failure to provide a viable franchise system, WSC also failed to protect its brand from the counter-marketing campaign of Windermere Watch. Windermere Watch severely damaged the Windermere brand in Southern California. Starting around 2005, Gary Kruger, a disgruntled former Seattle Windermere client, and his associates initiated an anti-marketing campaign under the name "Windermere Watch," which was specifically designed to direct defamatory statements, materials, and focused conduct against Windermere, and its franchisees

and real estate agents via the website www.windermerewatch.com. The website has been (and continues to be) used by Kruger as a tool to generate and/or spread negative and derogatory articles and comments concerning Windermere's purported business practices, litigation, owners, executives, brokers, agents, and general participation in the real estate market.

Windermerewatch.com is utilized and designed by Kruger to maximize its search engine presence. As a result, when internet users search for Windermere on Google and other internet search engines, windermerewatch.com has appeared as one of the top search results – often ahead of Windermere's own website. The obvious (if not express) intent of Kruger is to use windermerewatch.com to turn potential clients, agents, and franchisees away from Windermere.

Although WSC was legally obligated under the terms of the Coachella Valley Franchise Agreement, the SoCal Franchise Agreement, and the Area Representative Agreement to take action to protect the Windermere System, trademark, and brand, and to prevent unfair competition against its franchisees and their businesses, WSC did virtually nothing to combat Windermere Watch's anti-Windermere marketing campaign in Southern California.

The Windermere Watch anti-marketing campaign has had a significant and monetarily damaging effect on Plaintiffs' businesses. Windermere's competitors incorporate information from the site in pitches to both agents and clients. WSC's failure to protect the brand in the face of the anti-marketing campaign regularly caused the loss of listings, clients, and agents.

Because of this, WSC breached Section 4 by failing to take necessary action (legal or otherwise) to prevent infringement of the Windermere trademark or the related unfair competition faced by Plaintiffs in the Southern California region as a result of the Windermere Watch websites. Similarly, WSC breached Section 3(A) of the Modification Agreement failing to make commercially reasonable efforts to curtail Windermere Watch and related attacks on the Windermere brand in Southern

California.

Claim 2 – Breach of the Implied Covenant of Good Faith and Fair

Dealing: WSC breached the implied covenant of good faith and fair dealing in its

Coachella Valley Franchise Agreement with B&D Fine Homes and Services SoCal

by:

- Failing to provide adequate technology services in return for the excessive technology fees;
- Failing to provide a viable Windermere System to the Southern California region. To the extent WSC provided service or assistance, it was worthless;
- Improperly recruiting Plaintiffs' sales agents and other employees to join WSC and other Windermere offices;
- Terminating Services SoCal as the Area Representative for the Southern California region and thereby negating Plaintiffs' 50% reduction in franchise fees owed to WSC under the Coachella Valley Franchise Agreement; and
- Terminating Services SoCal as the Area Representative for the Southern California region (as discussed below) and not providing a comparable replacement.

Claim 3 – Breach of Contract: WSC breached Section 2 of the Area Representation Agreement with Services SoCal by failing to provide Services SoCal with the uninterrupted right to offer Windermere franchised businesses in Southern California.

Under the Federal Trade Commission's ("FTC") Amended Franchise Rule, located at title 16, part 436 of the Code of Federal Regulations, a franchisor is required to disclose to prospective franchisees a franchise disclosure document ("FDD") that contains a copy of the form franchise agreement and twenty-three specific "Items" about the franchised business, including specific information about the franchisor's executives and managers, its relevant litigation history, the expected business of the franchisee, the costs and fees associated with the franchised business,

the financial wellbeing of the franchisor, and the conditions in which the franchise can be terminated or renewed, among other things. 16 C.F.R. § 436.

The California Franchise Investment Law ("CFIL") builds upon the FTC's Amended Franchise Rule and serves as the primary vehicle for regulating the registration, offer, and sale of franchises in California. Under the CFIL, a franchisor must register a franchise application – including its current FDD – with the California Department of Business Oversight ("DBO") before a franchise can be offered or sold within the state.7 Cal. Corp. Code §§ 31110, 31119. A franchisor's California registration must be renewed every year. Cal. Corp. Code § 31120. Once the franchise application is properly registered with – and approved by – the DBO, the FDD, together with copies of all proposed agreements and other exhibits, must be provided to any prospective franchisee at least 14 days before the earlier of the day the franchisee executes the franchise agreement or pays the franchisor any consideration for the franchised business. Cal. Corp. Code § 31119(a).

In 2013, WSC filed a franchise registration renewal for Northern California on April 19, 2013, but for unknown reasons, delayed in filing its Southern California franchise registration until June 17, 2013. Because of WSC's late Southern California franchise registration filing, it was statutorily prohibited from offering or selling franchises in Southern California from April 21, 2013 to July 5, 2013, when the DBO approved of WSC's June 17, 2013. Thereafter, in 2014, WSC elected not to renew its Southern California offering, thereby precluding Services SoCal from bringing on any new franchises after April 20, 2014.

WSC similarly breached Section 7 by failing to promptly and diligently commence and pursue the preparation and filing of all franchise registration filings required under California law and/or the United States of America and in particular failing to maintain the registration of the Southern California FDD. WSC breached Section 10 by depriving Services SoCal of its right to offer new Windermere franchises rendering it unable to collect initial franchise fees and continuing license

fees from new franchisees.

WSC breached Section 4.2 by failing to pay Services SoCal the termination fee - i.e. the fair market value of its interest in the Area Representation Agreement - following termination without cause.

WSC breached section 3 of Exhibit A by attempting to terminate the Area Representation Agreement under the pretense that Services SoCal was the "guarantor" of the franchise fees owed by the franchisees in the Southern California region. Under Section 3 of Exhibit A to the Area Representation agreement, it is specifically noted that Services SoCal would not be a guarantor.

WSC breached Section 2 by for failing to provide a viable "Windermere System" as defined in the agreement and discussed above. WSC breached Section 3 by failing to provide servicing support in connection with the marketing, promotion and administration of the Trademark and Windermere System as described above. WSC breached Section 3 by failing to make available to Services SoCal competent "key people" necessary to assist Services SoCal in carrying out its obligations to offer and sell franchises as the Area Representative;

As discussed above, WSC breached Section 13 by failing to provide a technology system to support the operation and development of the franchise system in Southern California, and for unilaterally increasing the technology fees to amounts that on information and belief bear no relationship to the amounts actually spent on Windermere's technology system.

Claim 4 – Breach of the Implied Covenant of Good Faith and Fair

Dealing: WSC breached the implied covenant of good faith and fair dealing in its

Area Representation Agreement with Services SoCal by:

- Failing to provide a viable Windermere System in the Southern California region. To the extent WSC provided service or assistance, it was worthless;
- Taking action to interfere with and damage many of the relationships

between Services SoCal and franchisees in the Southern California region;

- Soliciting Services SoCal's participation in offers and sales of franchises in violation of the franchise laws;
- Making effort to acquire Services SoCal's superior services and related technology; and
- Failing to act in good faith and conduct its business such that Plaintiffs received the benefits of being an Area Representative in the franchise system.

Claim 5 – Breach of Contract: WSC breached Section 1 of the SoCal Franchise Agreement with B&D SoCal and Services SoCal by failing to provide Plaintiffs with a viable "Windermere System" as defined in the agreement. WSC breached Section 3 by failing to provide the promised "guidance" to Plaintiffs with respect to the "Windermere System".

WSC breached Section 6 by failing to take necessary action (legal or otherwise) to prevent infringement of the Windermere trademark or the related unfair competition faced by Plaintiffs in the Southern California region as a result of the Windermere Watch websites. WSC similarly breached Section 3(A) of the Modification Agreement by failing to make commercially reasonable efforts to curtail Windermere Watch and related attacks on the Windermere brand in Southern California.

Claim 6 – Breach of the Implied Covenant of Good Faith and Fair

Dealing: WSC breached the implied covenant of good faith and fair dealing in its

SoCal Franchise Agreement with B&D SoCal and Services SoCal by:

- Failing to provide adequate technology services in return for the excessive technology fees;
- Failing to provide a viable Windermere System to the Southern California region. To the extent WSC provided service or assistance, it

was worthless;

- Improperly recruiting Plaintiffs' sales agents and other employees to join WSC and other Windermere offices;
- Terminating Services SoCal as the Area Representative for the Southern California region and thereby negating Plaintiffs' 50% reduction in franchise fees owed to WSC under the SoCal Franchise Agreement; and
- Terminating Services SoCal as the Area Representative for the Southern California region and not providing a comparable replacement.

Claim 7 – Violation of the California Franchise Relations Act: Services SoCal brings a claim against WSC for violating California Business and Professions Code Section 20020 (the California Franchise Relations Act). The California Franchise Relations Act ("CFRA"), at California Business & Profession Code § 20020, precludes WSC from terminating the Area Representation Agreement absent "good cause." WSC's termination (constructive or by written notice) of the Area Representation Agreement without good cause violated § 20020 of the CFRA.

"Good cause shall be limited to the failure of the franchisee to substantially comply with the lawful requirements imposed upon the franchisee by the franchise agreement after being given notice at least 60 days in advance of the termination and a reasonable opportunity, which in no event shall be less than 60 days from the date of the notice of noncompliance, to cure the failure." Cal. Bus. & Prof. Code § 20020. WSC did not fulfill the requirements of this statute for showing good cause.

III. <u>DEFENDANT'S COUNTERCLAIMS AND AFFIRMATIVE</u> <u>DEFENSES [L.R. 16-4.1(d)-(f)]</u>

A. <u>Summary of Defendant's Counterclaims and Affirmative Defenses</u> [L.R.16-4.1(d)]

Defendant and Counter-Claimant Windermere Real Estate Services

1	Company's ("WSC") bring the following counterclaims:		
2	Claim 1 – Breach of Contract: WSC alleges that Bennion, Deville and B&D		
3	Fine Homes breached the Coachella Valley Franchise Agreement.		
4	Claim 2 – Breach of Contract: WSC alleges that Services SoCal breached		
5	the Area Representation Agreement.		
6	Claim 3 – Breach of Contract: WSC alleges that Bennion, Deville and B&D		
7	SoCal breached the SoCal Franchise Agreement.		
8	Claim 4 – Breach of Contract: WSC alleges that B&D Fine Homes,		
9	Services SoCal and B&D SoCal breached the Modification Agreement.		
10	Claim 8 - Open Book Account: WSC seeks payment against Bennion,		
11	Deville, Services SoCal, B&D SoCal and B&D Fine Homes for alleged debts.		
12	Affirmative Defense 1: Failure to State a Cause of Action		
13	Affirmative Defense 2: Uncertainty		
14	Affirmative Defense 3: Statute of Limitations		
15	Affirmative Defense 4: Parol Evidence Rule		
16	Affirmative Defense 5: Intervening or Superseding Acts of Third Parties		
17	Affirmative Defense 6: Waiver		
18	Affirmative Defense 7: No Actual Loss		
19	Affirmative Defense 8: Set-Off		
20	Affirmative Defense 9: Detrimental Reliance		
21	Affirmative Defense 10: Unclean Hands		
22	Affirmative Defense 11: Estoppel		
23	Affirmative Defense 12: Compliance with Applicable Laws		
24	Affirmative Defense 13: Valid Business Purpose		
25	Affirmative Defense 14: Apportionment		
26	Affirmative Defense 15: Damages Not Ascertainable		
27	Affirmative Defense 16: Full Performance		
28	Affirmative Defense 17: Consent		

1	Affirmative Defense 18: Discharge			
2	Affirmative Defense 19: Fault of Plaintiffs			
3	Affirmative Defense 20: Lack of Causation			
4	Affirmative Defense 21: Good Faith			
5	Affirmative Defense 22: Unjust Enrichment			
6	Affirmative Defense 23: Conduct Privileged			
7	Affirmative Defense 24: Conduct Justified			
8	Affirmative Defense 25: Failure to Mitigate			
9	B. Elements Required To Establish Defendant's Counterclaims			
10	[L.R.16-4.1(e)]			
11	The elements required to establish Defendant's claims are as follows:			
12	Claims 1-4 (Breach of Contract)			
13	1. The parties entered into a contract;			
14	2. Plaintiffs did all or substantially all of the significant things that the			
15	contract required them to do or were otherwise excused from			
16	performance;			
17	3. Defendant failed to do something the contract required it to do; and			
18	4. Plaintiffs were harmed by Defendant's breach of contract.			
19	CACI No. 303; Richman v. Hartley, 224 Cal.App.4th 1182, 1186 (2014).			
20	Claim 8 (Open Book Account)			
21	1. The parties had financial transactions:			
22	2. The plaintiff kept an account of the debits and credits involved in the			
23	transactions;			
24	3. The defendant owes plaintiff money on the account; and			
25	4. The amount of money that defendant owed plaintiff.			
26	CACI No. 372; Robin v. Smith, 132 Cal.App.2d 288, 291 (1955).			
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C. <u>Brief Description of Key Evidence In Opposition to Counterclaims</u> [L.R.16-4.1(f)]

Claim 1 – Breach of Contract: WSC alleges that Bennion, Deville and B&D Fine Homes breached the Coachella Valley Franchise Agreement by failing and refusing to pay required contractual fees to WSC. WSC claims that as of September 30, 2015, the amount past due and owing to WSC under the Coachella Valley Franchise Agreement is \$629,968.64. However, Bennion, Deville and B&D Fine Homes' obligation to pay these fees was excused by WSC's failure to perform its concurrent obligations under the agreement. WSC's breaches of the Coachella Valley Franchise Agreement (as reflected above) excused the performance of Bennion, Deville and B&D Fine Homes under the Coachella Valley Franchise Agreement.

WSC also alleges that Plaintiffs breached the Coachella Valley Franchise Agreement by their continued, knowing and intentional misuse of the Windermere name and Trademark following expiration/termination of the Coachella Valley Franchise Agreement on September 30, 2015. However, Plaintiffs quickly relinquished any Windermere trademarks following their exit of the Windermere brand. Due to the 15 year relationship of the parties, the brand Windermere was substantially intertwined with the real estate services offered by Bennion, Deville and B&D Fine Homes and these parties worked as quickly as commercially reasonable to distance themselves from the Windermere brand following the termination of the relationship. In any event, WSC was not harmed by any alleged continued use by Bennion, Deville and B&D Fine Homes of the Windermere mark following the termination of the parties' relationship.

Claim 2 – Breach of Contract: WSC alleges that Services SoCal breached the Area Representation Agreement by failing to provide "prompt, courteous and efficient service" to Windermere franchisees and by failing to deal "fairly and honestly" with members of the Windermere System. Services SoCal intends to

present evidence at trial to show that it went above and beyond in the support that it provided to the franchisees in the Southern California region and that WSC left these franchisees without any support or assistance other than the use of the deteriorating Windermere brand.

WSC alleges that Services SoCal breached the Area Representation Agreement by failing and refusing to collect and remit fees from Windermere franchisees, including from Defendants B&D Fine Homes and WSSC themselves. However, Services SoCal is not a guarantor of any of the fees. Section 3 of Exhibit A to the Area Representation Agreement explicitly states that "It is understood that the collection of fees will be the responsibility of Area Representative, but Area Representative will not be responsible for payment of uncollectable fees." The evidence will show that Services SoCal is not a guarantor of these payments by other franchisees in the region and took reasonable efforts to compel payment by the franchisees.

WSC alleges that Services SoCal breached the Area Representation Agreement by its continued, knowing and intentional misuse of the Windermere name and trademarks following expiration/termination of the Area Representation Agreement. However, the evidence will show that Services SoCal did not use the Windermere brand following the termination of the parties' agreement.

Claim 3 – Breach of Contract: WSC alleges that Bennion, Deville and B&D SoCal breached the SoCal Franchise Agreement by failing and refusing to pay required contractual fees to WSC since July 2014. WSC claims that as of September 30, 2015, the amount past due and owing to WSC under the SoCal Franchise Agreement is \$192.630.22. However, Bennion, Deville and B&D Homes SoCal's obligation to pay these fees was excused by WSC's failure to perform its concurrent obligations under the agreement. However, Bennion, Deville and B&D SoCal's obligation to pay these fees was excused by WSC's failure to perform its concurrent obligations under the agreement. WSC's breaches of the SoCal Franchise

 Agreement (as reflected above) excused the performance of Bennion, Deville and B&D SoCal under the SoCal Franchise Agreement.

WSC also alleges that Bennion, Deville and B&D SoCal breached the SoCal Franchise Agreement by their continued, knowing and intentional misuse of the Windermere name and Trademark following expiration/termination of the SoCal Franchise Agreement. However, Plaintiffs quickly relinquished any Windermere trademarks following their exit of the Windermere brand. Plaintiffs moved to establish their own brand, Bennion & Deville, immediately upon leaving Windermere. However, the evidence will show that Bennion, Deville and B&D SoCal did not use the Windermere brand following the termination of the parties' agreement.

Claim 4 – Breach of Contract: WSC alleges that B&D Fine Homes, Services SoCal and B&D SoCal breached the Modification Agreement by failing to remain with the Windermere System for the five (5) year period mandated by the Modification Agreement. WSC argues that B&D Fine Homes, Services SoCal and B&D SoCal are therefore required to repay to WSC a pro rata portion of the franchise fees waived under the Modification Agreement. WSC claims this amounts to \$386,056.57. However, B&D Fine Homes, Services SoCal and B&D SoCal's obligation to pay these fees was excused by WSC's failure to perform its concurrent obligations under the agreement. Moreover, WSC's termination of the Area Representation Agreement – and thereby terminating the franchise agreements – precluded the B&D Parties from remaining in the Windermere System. WSC cannot now claim breach of the agreement for conduct caused by WSC.

Claim 8 – Open Book Account: WSC seeks payment against Bennion, Deville, Services SoCal, B&D SoCal and B&D Fine Homes for alleged debts of \$1,208,655.43. However, Plaintiffs' obligation to pay any portions of these fees was excused by WSC's failure to perform its concurrent obligations under the applicable agreements. For the reasons set forth above, the B&D Parties' payments to WSC

were excused.

D. <u>Elements and Key Evidence In Opposition To Defendant's</u> Affirmative Defenses [L.R.16-4.1(e)-(f)]

Affirmative Defense 1: Failure to State a Cause of Action.

Failure to state a claim is not an affirmative defense. *E.g. Barnes v. AT & T Pension Ben. Plan-Nonbargained Program* (N.D. Cal. 2010) 718 F.Supp.2d 1167, 1173; *Perez v. Gordon & Wong Law Group, P.C.* (N.D. Cal., Mar. 26, 2012, No. 11-CV-03323-LHK) 2012 WL 1029425, at *11.

Affirmative Defense 2: Uncertainty

Uncertainty is not an affirmative defense. *E.g. G & G Closed Circuit Events*, *LLC v. Nguyen* (N.D. Cal., June 10, 2013, No. 5:12-CV-03068 EJD) 2013 WL 2558151, at *4; *J & J Sports Productions, Inc. v. Gidha* (E.D. Cal., Feb. 17, 2012, No. CIV S-10-2509 KJM) 2012 WL 537494, at *3.

Affirmative Defense 3: Statute of Limitations

WSC has not specified which statute of limitations are applicable to what claims. Regardless, the evidence will show WSC attempted to string Plaintiffs along with regard to complying with its contractual obligations. As such, WSC will be unable to point to any certain date wherein it can state that the breaches occurred, were known and that the statute of limitations thereafter ran.

Affirmative Defense 4: Parol Evidence Rule

The parol evidence rule generally prohibits the introduction of either oral or written extrinsic evidence to vary, alter, or add to the terms of an integrated written agreement. *In re Gaines' Estate*, 15 Cal.2d 255, 264–265, 100 P.2d 1055 (1940); *Duncan v. McCaffrey Group, Inc.*, 200 Cal.App.4th 346, 363, 133 Cal.Rptr.3d 280 (2011).

Affirmative Defense 5: Intervening or Superseding Acts of Third Parties

An intervening cause which breaks the chain of causation from the original act is itself regarded as the proximate cause of the injury and relieves the original actor

of liability. *Schrimscher v. Bryson*, 58 Cal. App. 3d 660, 664 (Cal. App. 2d Dist. 1976). However, lack of causation is merely a denial of an element of the claims, therefore is not an affirmative defense. *Joe Hand Promotions, Inc. v. Davis*, 2012 WL 4803923, at *4 (N.D. Cal. Oct. 9, 2012).

Affirmative Defense 6: Waiver

Waiver is an "intentional relinquishment of a known right with knowledge of its existence and the intent to relinquish it." *adidas-Am., Inc. v. Payless Shoesource, Inc.*, 546 F.Supp.2d 1029, 1074 (D. Or. 2008). There is no evidence to establish that Plaintiffs relinquished or otherwise waived any contractual rights.

Affirmative Defense 7: No Actual Loss

"A defense which demonstrates that plaintiff has not met its burden of proof as to an element plaintiff is required to prove is not an affirmative defense." *Zivkovic v. S. California Edison Co.*, 302 F.3d 1080, 1088 (9th Cir.2002). On the other hand, "[a]n affirmative defense, under the meaning of Federal Rule of Civil Procedure 8(c), is a defense that does not negate the elements of the plaintiff's claim, but instead precludes liability even if all of the elements of the plaintiff's claim are proven." *Roberge v. Hannah Marine Corp.*, No. 96–1691, 1997 WL 468330, at *3 (6th Cir.1997). Claiming that plaintiffs have not suffered an actual loss goes to the element of damages.

Affirmative Defense 8: Set-Off

Set-off is an equitable doctrine under which a defendant may offset sums owing to the plaintiff against sums owing from plaintiff to defendant, with the result that the offsetting amounts are cancelled and the defendant is obligated to pay plaintiff only the net amount, if any. 2 Cal. Affirmative Def. § 44:1 (2d ed.); *Harrison v. Adams*, 20 Cal.2d 646, 648 (1942); *California Canning Peach Growers v. Williams*, 11 Cal.2d 233, 240-41 (1938). As described in Plaintiffs' claims, there is significant evidence of damages and harm. WSC is not entitled to a set-off as it will be unable to establish its claims.

Affirmative Defense 9: Detrimental Reliance

Detrimental reliance is subsumed by the estoppel affirmative defense. *In re Marino*, 813 F.2d 1562, 1566 (9th Cir. 1987); *Kinzli v. City of Santa Cruz*, 539 F.Supp. 887, 902 (N.D.Cal.1982). The elements of a cause of action for promissory estoppel are (1) a promise made by a defendant to one or more of the plaintiffs that is clear and unambiguous in its terms; (2) reasonable and foreseeable reliance on that promise by the plaintiff or plaintiffs to whom it was made; and (3) damage to that plaintiff or plaintiffs due to reliance on the promise. 2 Cal. Affirmative Def. § 34:16 (2d ed.).

Affirmative Defense 10: Unclean Hands

The elements of unclean hands are that the defendant must demonstrate that the plaintiff's conduct is inequitable and that the conduct relates to the subject matter of its claims. *Emco v. Obst*, 2004 WL 1737355, *4, no. CV 03–6432 (C.D. Cal. May 7, 2004); *Fuddruckers v. Doc's B.R. Others*, 826 F.2d 837, 847 (9th Cir. 1987).

Affirmative Defense 11: Estoppel

Estoppel requires that "the party to be estopped must be apprised of the facts; the other party must be ignorant of the true state of facts, the party to be estopped must have intended that its conduct be acted upon, or so act that the other party had a right to believe that it was so intended; and the other party must rely on the conduct to its prejudice." *Hydro-Mill Co., Inc. v. Hayward, Tilton & Rolapp Ins. Associates, Inc.*, 115 Cal. App. 4th 1145, 1165-1166 (Cal. App. 2d Dist. 2004).

Affirmative Defense 12: Compliance with Applicable Laws

To adequately plead compliance with applicable laws as an affirmative defense, a party must provide notice as to what applicable laws and state and federal regulations were followed and what claims are barred by the alleged compliance. *Cervantes v. Cemex, Inc.*, No. 1:12-CV-01932-LJO, 2014 WL 6090414, at *6 (E.D. Cal. Nov. 13, 2014) (citing *Conley v. Gibson*, 355 U.S. 41, 47 (1957). WSC has not

done so here.

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Affirmative Defense 13: Valid Business Purpose

"A defense which demonstrates that plaintiff has not met its burden of proof as to an element plaintiff is required to prove is not an affirmative defense." *Zivkovic v. S. California Edison Co.*, 302 F.3d 1080, 1088 (9th Cir.2002). On the other hand, "[a]n affirmative defense, under the meaning of Federal Rule of Civil Procedure 8(c), is a defense that does not negate the elements of the plaintiff's claim, but instead precludes liability even if all of the elements of the plaintiff's claim are proven." *Roberge v. Hannah Marine Corp.*, No. 96–1691, 1997 WL 468330, at *3 (6th Cir.1997). WSC's claim of a valid business purpose presumably goes to whether Plaintiffs satisfied the elements of breach of the implied covenant of good faith and fair dealing.

Affirmative Defense 14: Apportionment

"A defense which demonstrates that plaintiff has not met its burden of proof as to an element plaintiff is required to prove is not an affirmative defense." Zivkovic v. S. California Edison Co., 302 F.3d 1080, 1088 (9th Cir.2002). Claiming that a third party has caused the harm or damages suffered by Plaintiffs is not an affirmative defense but instead goes to whether Plaintiffs were harmed by WSC's breach of contract.

Affirmative Defense 15: Damages Not Ascertainable

Section 3301 of the California Civil Code states that "[n]o damages can be recovered for a breach of contract which are not clearly ascertainable in both their nature and origin." Cal. Civ. Code § 3301. "Where the fact of damages is certain, the amount of damages need not be calculated with absolute certainty. The only requirement is that a reasonable basis of computation be used, and the result reached can be a reasonable approximation." *Acree v. General Motors Acceptance Corporation*, 92 Cal.App.4th 385, 398 (2001). Rather than an affirmative defense, this purported defense goes to whether Plaintiffs were harmed by WSC's breach of

contract.

Affirmative Defense 16: Full Performance

A denial of allegations in the complaint is not a proper affirmative defense. *See Landmark Equity Fund, II, LLC v. Arias*, No. 1:15-CV-00202-JLT, 2015 WL 4228906, at *7 (E.D. Cal. July 10, 2015) (citing *Solis v. Couturier*, 2009 U.S. Dist. LEXIS 63271 at *8–9, 2009 WL 2022343 (E.D.Cal. July 8, 2009) (holding that full performance is not a proper affirmative defense to a breach of contract claim).

Affirmative Defense 17: Consent

To prevail on the affirmative defense of consent, a defendant must prove that the plaintiff consented in advance to conduct of which it now complains. *Am. Nat. Bank v. Stanfill*, 205 Cal. App. 3d 1089, 1093 (Ct. App. 1988). WSC cannot do so here as to any of its' claims.

Affirmative Defense 18: Discharge

Claiming that WSC has performed by discharging its obligations is not an affirmative defense. A denial of allegations in the complaint is not a proper affirmative defense. *See Landmark Equity Fund, II, LLC v. Arias*, No. 1:15-CV-00202-JLT, 2015 WL 4228906, at *7 (E.D. Cal. July 10, 2015) (citing *Solis v. Couturier*, 2009 U.S. Dist. LEXIS 63271 at *8–9, 2009 WL 2022343 (E.D.Cal. July 8, 2009) (holding that full performance is not a proper affirmative defense to a breach of contract claim).

Affirmative Defense 19: Fault of Plaintiffs

WSC's conclusory claim that Plaintiffs have been damaged by their own conduct is not an affirmative defense. Instead, this allegation goes to whether the elements of damages and causation have been met. *See Zivkovic v. S. California Edison Co.*, 302 F.3d 1080, 1088 (9th Cir.2002) ("A defense which demonstrates that plaintiff has not met its burden of proof as to an element plaintiff is required to prove is not an affirmative defense.")

Affirmative Defense 20: Lack of Causation

Lack of causation is merely a denial of an element of the claims, therefore is not an affirmative defense. *Joe Hand Promotions, Inc. v. Davis*, 2012 WL 4803923, at *4 (N.D. Cal. Oct. 9, 2012).

Affirmative Defense 21: Good Faith

WSC's claim that it acted in good faith and did not contribute to the alleged damages suffered by Plaintiffs goes to the element of causation. Lack of causation is merely a denial of an element of the claims, therefore is not an affirmative defense. *Joe Hand Promotions, Inc. v. Davis*, 2012 WL 4803923, at *4 (N.D. Cal. Oct. 9, 2012).

Affirmative Defense 22: Unjust Enrichment

The elements of unjust enrichment are: (1) receipt of a benefit; and (2) unjust retention of the benefit at the expense of another. *In re ConAgra Foods Inc.*, 908 F. Supp. 2d 1090, 1113 (C.D. Cal. 2012).

Affirmative Defense 23: Conduct Privileged

A privilege is a legal right to do a thing without suffering any legal liability for doing it. 2 Cal. Affirmative Def. § 41:21 (2d ed.) WSC has failed to point to any authority for its actions. Further, to the extent that WSC is arguing its conduct was not a breach or in compliance with the law, these go to elements of Plaintiffs' claims rather than being an affirmative defense.

Affirmative Defense 24: Conduct Justified

To show that conduct was justified, a party must show that it was justified in acting as defendant did and in making the statements and representations defendant made to the persons to whom the statements and representations were made. 2 Cal. Affirmative Def. § 41:21 (2d ed.) WSC has failed to point to any legal justification for its actions. Further, to the extent that WSC is arguing its conduct was not a breach or in compliance with the law, these go to elements of Plaintiffs' claims rather than being an affirmative defense.

Affirmative Defense 25: Failure to Mitigate

Generally, a plaintiff may not recover damages that could have been avoided if reasonable and appropriate mitigation efforts within the plaintiff's means had been taken. *Steelduct Co. v. Henger–Seltzer Co.*, 26 Cal.2d 634, 649 (1945). Plaintiffs' damages in this matter follow attempts to mitigate the harm by combating Windermere Watch and create their own technology systems. Consequently, WSC cannot establish any failure to mitigate.

IV. ANTICIPATED EVIDENTIARY ISSUES [L.R. 16-4.1(h)]

The B&D Parties expect to file several motions in limine to exclude WSC from offering facts or argument not produced during discovery or pled in this case.

V. ANTICIPATED ISSUES OF LAW [L.R. 16-4.1(i)]

The B&D Parties anticipate that WSC will attempt to argue that the Area Representation Agreement did not create a franchise relationship between WSC and Services SoCal as provided for in the California Franchise Investment Laws. In the event that WSC does indeed take this position, the B&D Parties intend to show that it is directly contracted by the California statute and related case law.

VI. <u>BIFURCATION OF ISSUES [L.R. 16-4.3]</u>

The Parties do not request that any issues be bifurcated.

VII. JURY TRIAL [L.R. 16-4.4]

A. <u>Issues Triable To The Jury</u>

The Parties both timely demanded a jury trial on all issues triable to a jury in their respective First Amended Complaint and First Amended Counterclaim. The following issues are triable to the jury:

- 1. Breach of contract under the theories set forth by the Parties. CACI No. 303. This also subsumes Defendant's Affirmative Defense 4: Parol Evidence Rule; Affirmative Defense 5: Intervening or Superseding Acts of Third Parties; Affirmative Defense 7: No Actual Loss; Affirmative Defense 14: Apportionment;
- Affirmative Defense 15: Damages Not Ascertainable; Affirmative Defense 16: Full

Performance; Affirmative Defense 18: Discharge; Affirmative Defense 19: Fault of Plaintiffs; Affirmative Defense 20: Lack of Causation

- 2. Breach of the implied covenant of good faith and fair dealing. CACI No. 325.
- 3. Violation of the California Franchise Relations Act. This also subsumes Defendant's Affirmative Defense 12: Compliance with Applicable Laws
 - 4. Open book account. CACI No. 372.
- 5. The following affirmative defenses Affirmative Defense 3: Statute of Limitations (CACI 338); and Affirmative Defense 25: Failure to Mitigate (CACI 358).

B. <u>Issues Triable To The Court</u>

The following issues are triable to the Court:

- 1. Defendant's equitable affirmative defenses¹: Affirmative Defense 6:
- Waiver; Affirmative Defense 8: Set-Off; Affirmative Defense 9: Detrimental
- 15 | Reliance; Affirmative Defense 10: Unclean Hands; Affirmative Defense 11:
- 16 | Estoppel; Affirmative Defense 13: Valid Business Purpose; Affirmative Defense 17:
- 17 | Consent; Affirmative Defense 21: Good Faith; Affirmative Defense 22: Unjust
 - Enrichment; Affirmative Defense 23: Conduct Privileged; and Affirmative Defense 24: Conduct Justified.
 - 2. Any remaining affirmative defenses set forth by the Parties.

VIII. ATTORNEYS' FEES [L.R. 16-4.4]

Plaintiffs and WSC seek attorneys' fees and costs incurred in this action pursuant to Section 11 of the Coachella Valley Franchise Agreement, Section 21 of the Area Representation Agreement, Section 13 of the SoCal Franchise Agreement and Section 7 of the Modification Agreement.

See generally Granite State Ins. Co. v. Smart Modular Techs., Inc., 76 F.3d 1023, 1027 (9th Cir. 1996) ("A litigant is not entitled to have a jury resolve a disputed affirmative defense if the defense is equitable in nature.")

IX. ABANDONED CLAIMS OR ISSUES

The B&D Parties do not intend to abandon any claims or issues.

DATED: August 29, 2016

MULCAHY LLP

By: /s/ James M. Mulcahy
James M. Mulcahy
Kevin A. Adams
Attorneys for Plaintiffs/CounterDefendants Bennion & Deville Fine
Homes, Inc., Bennion & Deville Fine
Homes SoCal, Inc., Windermere
Services Southern California, Inc.,
and Counter-Defendants Robert L.
Bennion and Joseph R. Deville

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PROOF OF SERVICE

STATE OF CALIFORNIA, COUNTY OF ORANGE

I am employed in the County of Orange, State of California. I am over the age of 18 and not a party to the within action; my business address 4 Park Plaza, Suite 1230, Irvine, CA 92614.

On August 29, 2016, I served document(s) described as **PLAINTIFFS/COUNTER-DEFENDANTS' MEMORANDUM OF CONTENTIONS OF FACT AND LAW [L.R. 16-4]** on the following person at the addresses and/or facsimile number below:

Pérez Wilson Vaughn & Feasby John Vaughn 750 B. Street, 33rd Floor San Diego, CA 92101 vaughn@perezwilson.com

- [] VIA FACSIMILE Based on an agreement by the parties to accept service by fax transmission, I faxed the documents from a fax machine in Irvine, California, with the number 949-252-0090, to the parties and/or attorney for the parties at the facsimile transmission number(s) shown herein. The facsimile transmission was reported as complete without error by a transmission report, issued by the facsimile transmission upon which the transmission was made, a copy of which is attached hereto.
- [X] BY ELECTRONIC SERVICE Based on a court order or agreement of the parties to accept service by electronic transmission, I caused the documents to be sent to the persons at the electronic notification addresses listed herein on the above referenced date. I did not receive, within a reasonable time after the transmission, any electronic message or other indication that the transmission was unsuccessful.
- [] BY MAIL I am "readily familiar" with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. postal service on that same day, with postage thereon fully prepaid, at Irvine, California in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage meter date is more than one day after date of deposit for mailing in affidavit.
- BY CERTIFIED MAIL I am "readily familiar" with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. postal service on that same day, with postage thereon fully prepaid, at Irvine, California in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage meter date is more than one day after date of deposit for mailing in affidavit.
 - BY FEDERAL EXPRESS I am readily familiar with the firm's practice of collection and processing correspondence for Federal Express. Under that practice it would be deposited

1	with Federal Express on that same day in the ordinary course of business for overnight delivery with delivery costs thereon fully prepaid by sender, at Irvine, California.
2	BY MESSENGER SERVICE – I served the documents by placing them in an envelope or
3	package addressed to the persons at the addresses listed herein and providing them to a professional messenger service for service. A declaration by the messenger service will be
4	filed separately.
5 6	I declare under penalty of perjury under the laws of the State of California and the United States of America that the above is true and correct.
7	Executed on August 29, 2016 at Irvine, California.
8	Encoured on Flagues 27, 2010 at 11 time, Camionian
9	By: <u>/s/ Barbara Calvert</u>
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