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    LOS ANGELES COUNTY SUPERIOR COURT, STATE OF CALIFORNIA
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                                (Unlimited Civil)
11
   KEVIN BLANCHARD, WILLIAM
                                    ) Case No. BC284166
12
   COOPER, JOHN LUND, MICHAEL
   SPENCER, AND EARL J. MALLET
13
   on behalf of themselves and all similarly
   situated persons,
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15
               Plaintiffs,
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                                     CLASS ACTION
               v.
17
   DIRECTV, INC., HUGHES
                                    ) COMPLAINT FOR
18
   ELECTRONICS CORPORATION,
                                    ) 1. UNFAIR COMPETITION (Business &
   GENERAL MOTORS CORPORATION, ) Professions Code § 17200 et. seq.)
19
                                    ) 2. INTERFERENCE WITH CIVIL RIGHTS
   YARMUTH WILSDON CALFO PLLC.
20
   SPENCER D. FREEMAN, DEBORAH
                                    ) (Civil Code § 52.1)
                                    ) 3. EXTORTION AND DURESS
   T. BOYLSTON, JOHN M.
21
   STELLWAGEN, GURJIT PANDHER,
   GREGORY Q. ZAMUDIO, DIRECTV
22
   END USER DEVELOPMENT
23
   ORGANIZATION, BERT EICHHORN
   DAVID BAUTISTA, SECURE SIGNALS)
24
   INTERNATIONAL, MCGINNIS GROUP)
   INTERNATIONAL, LLC, STANLEY F. )
25
   MCGINNIS, and DOES 1 through 100
26
                                    COMPLAINT
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1	inclusive,		
2	Defendants.		
3	Plaintiffs allege as follows:  PARTIES		
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5	1. Plaintiffs BLANCHARD, COOPER, LUND, SPENCER, and MALLET, individuals, bring		
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7	this action on behalf of themselves, as private attorneys general pursuant to Business and		
8	Professions Code section 17204 and Business and Professions Code section 17535 on behalf		
9	of the general public and specifically on behalf of recipients of demand letters from		
10	defendants, and on behalf of other persons similarly situated pursuant to Code of Civil		
11	Procedure section 382.		
12	2. Plaintiffs are now, and at all times mentioned in this Complaint were, competent adults, a		
13			
14	residents of the State of California.		
15	3. Defendants DIRECTV, INC. (hereinafter DIRECTV), and HUGHES ELECTRONICS		
16	CORPORATION, are now, and at all times mentioned in this Complaint were, corporations		
17	whose principal place of business is the County of Los Angeles, State of California. One or		
18	more of the transactions that are the subject of this lawsuit occurred in the County of Los		
19	Angeles.		
20			
21	4. Defendant GENERAL MOTORS CORPORATION is a corporation whose principal place of		
22	business is the State of Michigan.		
23	5. Defendant YARMUTH WILSDON CALFO PLLC is a business of unknown form whose		
24	principal place of business is the State of Washington.		
25			
26	2		
27	COMPLAINT		

**GROUP** 

Both classes are so numerous that it is impracticable to bring all members of the classes before the court. The identity of the members of each class is easily ascertainable from defendants' own records.

- 15. The plaintiffs' and class members' claims against defendants involve questions of law or fact common to the classes that are substantially similar and predominate over questions affecting individual class members, in that all class members received similar Demand Letters issued pursuant to a common plan or scheme of defendants to extort money, and to defraud and intimidate plaintiffs and class members from possessing lawful property, and that each member of the Payers Subclass paid a sum of money or forfeited valuable property as a result of the extortion.
- 16. The claims of plaintiffs are typical of the claims of the members of their respective classes.
- 17. Plaintiffs can fairly and adequately represent the interests of the class.

# FIRST CAUSE OF ACTION FOR UNFAIR COMPETITION BY ALL PLAINTIFFS (BROUGHT AS CLASS ACTION AND INDIVIDUAL ACTION) AGAINST ALL DEFENDANTS

- 18. Plaintiffs incorporate in this cause of action the allegations contained in paragraphs 1 through 17, inclusive.
- 19. Commencing prior to June 1, 2001, but continuing on that date and continuing thereafter, defendants have engaged in, are engaged in, and propose to engage in unfair competition as that term is defined in Business and Professions Code section 17200, which includes any "unlawful, unfair or fraudulent business act or practice," "unfair, deceptive, untrue or

misleading advertising," and any act prohibited by Chapter 1 (commencing with section 17500) of Part 3 of Division 7 of the Business and Professions Code.

- 20. DIRECTV is one of five main units of Hughes Electronics Corporation, which in turn is a wholly owned subsidiary of General Motors Corporation. Revenue and profits of all kinds earned by DIRECTV, including revenue from the unlawful conduct described below, flow to Hughes Electronics Corporation and General Motors Corporation.
- 21. DIRECTV is the nation's leading direct broadcast satellite system, delivering over 225 channels of television and other programming to more than 10 million homes and businesses in the United States.
- 22. DIRECTV encrypts—electronically scrambles—its satellite transmissions to prevent unauthorized viewing of its satellite television programming. DIRECTV offers its television programming to residential customers on a subscription and pay-per-view basis only. Each customer is required to obtain a DIRECTV access card and other system hardware including a small satellite dish and to create an account with DIRECTV. Upon activation of the access card by DIRECTV, the customer can receive and view in decrypted (unscrambled) format those channels to which the customer has subscribed or otherwise made arrangement to purchase from DIRECTV.
- 23. In the past several years, defendant DIRECTV came into possession of various business records of companies which DIRECTV suspected had been involved in selling lawful, noncontraband, electronic devices and hardware that could, under certain circumstances and conditions, be used by a person with sufficient expertise to receive unauthorized satellite transmissions. DIRECTV calls persons who use such devices and hardware to receive

unauthorized satellite transmissions "pirates." These records contained names and addresses of persons who were listed as the recipients of these devices and hardware. These individuals are consumers or "end-users" as defendants would call them.

- 24. Rather than investigating whether the persons identified in the business records had 1) actually received the hardware and 2) used it in some illegal or improper fashion as a "pirate," DIRECTV, HUGHES ELECTRONICS CORPORATION and GENERAL MOTORS CORPORATION, originated, developed and implemented a policy, practice and scheme by which their agents, law firms and collection agencies, would send a series of form "Demand Letters" to all persons whose names had been found in the business records. The Demand Letters were drafted in-house by DIRECTV and modified only slightly by the agents who sent the Letters.
- 25. The purpose of this scheme was to intimidate and coerce said persons into forfeiting said equipment and to extort a sum of money payable to DIRECTV and its agents. The further goal of this scheme was to deter any person from purchasing similar equipment in the future, regardless of their intentions and use for such hardware. DIRECTV expressly stated its goal was to send out at least 100,000 Demand Letters.
- 26. In order to meet this goal, DIRECTV determined that it was not feasible to actually investigate the merits of the piracy allegations against individuals prior to sending the Demand Letters to them. Accordingly, DIRECTV did not attempt to contact these persons to inquire as to the purpose for their suspected purchase and did not attempt to determine if the person currently had or ever had a DIRECTV satellite system. Moreover, as will be seen below, in the threatening Demand Letters, DIRECTV did not request an explanation or

express an interest in receiving an explanation from the consumer as to the reasons for his or her possession of the devices or hardware.

- 27. In order to implement this scheme, DIRECTV utilized the services of several collection agencies and law firms to act as its agents in sending the Demand Letters and handling communications with the recipients. These agents include defendants Yarmuth Wilsdon Calfo Pllc, individual attorneys in that firm, Bert Eichhorn and David Bautista of the DIRECTV End User Development Organization, Stanley F. McGinnis of Secure Signals International and McGinnis Group International, LLC, and other persons and entities currently identified only as Doe Defendants.
- 28. Since defendants implemented this strategy in mid-2001, defendants have sent out an estimated 50,000 to 100,000 form Demand Letters.
- 29. The form Demand Letters typically were and are of two variants. The first variant, or Initial Demand Letter, typically contained and still contains the following common elements:
- a) An introduction confirming that the sender was acting as the agent of Directv, Inc.
- b) Repeated accusations that the recipient has committed "illegal" and "unlawful" activities and "theft," backed up with several references to federal laws, which make it illegal to engage in certain conduct attributed to the recipient. The implication of the Letters is that the recipient could face civil and criminal prosecution as a result of this conduct. However, at the time defendants sent the letters, defendants possessed no business records or other evidence indicating that the recipient had viewed unauthorized DIRECTV satellite programming and was committing theft or had attempted to commit theft.

c) A purported factual assertion that the sender possessed business records that established the recipient had purchased or acquired illegal signal theft equipment. However, the Letters do not specifically describe or identify what equipment the recipient possesses which is supposedly illegal signal theft equipment. In fact, none of the actual pieces of equipment, which are the subject of these Demand Letters, are contraband or illegal items. At most, they are pieces of hardware that have many innocent uses, but which under certain circumstances and if certain other conditions are met, could (in knowledgeable hands) be used to receive unauthorized satellite transmissions. Moreover, the business records are comprised of mailing lists and shipping records seized under hostile and unreliable conditions from third parties which, at the time defendants sent the letters, had not been corroborated or authenticated in any way.

- d) A purported factual assertion that the recipient had purchased or acquired the signal theft equipment to gain unauthorized access to DIRECTV's programming. However, the Letters do not specify whether the recipient is or was a DIRECTV subscriber. In fact, the Letters were sent to many recipients who <u>never</u> owned a DIRECTV system and, therefore, could not possibly have received unauthorized transmissions even with the "signal theft equipment" DIRECTV accused them of purchasing. The items in question would have been as useless to a recipient who lacked a satellite dish as a shoe to a man without a matching foot.
- e) A purported factual assertion that the recipient had modified devices to illegally gain access to DIRECTV's programming. However, at the time defendants sent the letters, they did not actually know whether the recipients had modified the devices or not as they had never seen

the devices in question and knew nothing about the capabilities of the recipients to make such modifications.

- A list of demands which either must be met in timely fashion, or a lawsuit would be filed against the recipient within 14 days or some other specified short period of time. The Letters flatly state that after this period of time, DIRECTV will "initiate legal proceedings in the federal district court" and "abandon its attempts to negotiate." The list of demands includes payment of an unspecified sum of money, forfeiture of property and a promise never to acquire similar property in the future.
- g) The threat that if the recipient does not settle, DIRECTV will seek and be entitled to recover monetary damages of \$100,000 or more from the recipient, and implication that the recipient could be criminally prosecuted since the statutes cited are criminal laws.
- 1. Each of the plaintiffs received at least one Demand Letter that contained the foregoing elements. For example, on or about September 25, 2002 plaintiff Kevin Blanchard received a Demand Letter signed by B. Eichhorn of the DIRECTV End User Development Organization. On September 11, 2002, plaintiff William Cooper received a Demand Letter signed by Gregory Q. Zamudio of Yarmuth Wilsdon Calfo PLLC. On August 12, 2002, plaintiff John Lund received a Demand Letter signed by Stanley F. McGinnis of Secure Signals International. On October 1, 2002, plaintiff William Spencer received a Demand Letter signed by B. Eichhorn of the DIRECTV End User Development Organization. On October 11, 2002, plaintiff Earl J. Mallet received a Demand Letter signed by Spencer D. Freeman of Yarmuth Wilsdon Calfo PLLC,

- Other members of the classes have received at least one Demand Letter from each of the named defendants (except Hughes Electronics and General Motors).
- 3. Many of the statements contained in these Demand Letters are false, misleading or deceptive for numerous reasons, including those set forth above. Moreover, in making the claims set forth in the Demand Letters, defendants had knowledge of the falsity of the claims and made them with a reckless and conscious disregard for the truth.
- 4. The second variant, or Secondary Demand Letter, was sent several weeks to several months after the Initial Demand Letter, and typically reiterated the accusations that the recipient had purchased illegal signal theft equipment, and flatly stated that unless the recipient contacted the sender within ten days a lawsuit would be filed based upon a draft complaint that was sent to the recipient. Three of the plaintiffs have received Secondary Demand Letters as well.
- 5. This Secondary Demand Letter contains the same type of false, misleading or deceptive statements as are present in the Initial Demand Letter, plus the false implication that a lawsuit would be filed immediately after ten days.
- Letters were issued to the class members, the defendants did not have a serious and good faith intent to pursue imminent litigation against the recipients for two reasons. First, in the vast majority of cases, defendants did not actually have documentary evidence that the plaintiffs and class members were in possession of <u>illegal</u> signal theft equipment; instead, the Letters were merely a tactical ploy to induce a settlement. Defendants gambled, correctly as it turned out, that a substantial percentage of the recipients, as unsophisticated consumers,

would submit to the defendants' demands due to confusion over the intimidating allegations and factual misrepresentations contained in the Letters, as well as financial inability to defend themselves against the draconian penalties threatened by defendants. Secondly, due to the sheer number of Demand Letters issued, defendants could not possibly hope to file lawsuits in the near future against more than a miniscule percentage of the recipients and certainly could not sue every recipient in the event a settlement was not forthcoming. As it turns out, defendants have only sued a small percentage of the recipients who failed to settle and have settled with a substantial percentage of the recipients. Suing a small fraction of the thousands of persons who were sent the Letters does not constitute a serious and good faith intent to pursue imminent litigation.

- 7. The conduct of defendants as set forth above with respect to members of the general public and specifically recipients of the Demand Letters was an "unlawful" business act or practice within the meaning of section 17200 because in sending the Letters defendants violated California Penal Code sections 518, 519, 520 and 523 and 524 (extortion and attempted extortion) and comparable federal statutes relating to extortion—18 USC sections 875, 876 and 1951—and mail and wire fraud, 18 USC sections 1341 and 1343.
- 8. The conduct of defendants as set forth above with respect to members of the general public and specifically recipients of the Demand Letters was a "fraudulent" business act or practice and deceptive or misleading advertisement within the meaning of section 17200 because the Demand Letters contained statements which were capable of deceiving or had a tendency to deceive the recipients.

- 9. The conduct of defendants as set forth above with respect to members of the general public and specifically recipients of the Demand Letters was an "unfair" business act or practice within the meaning of section 17200. The fairness of business conduct is determined by weighing the practice's impact on consumers and members of the general public against the business justification for the conduct. Here, defendants' legitimate concerns about piracy of satellite transmissions does not come close to justifying their carpet-bombing, collateral-damage-ignoring, heavy-handed campaign of intimidation and extortion, accusing thousands of innocent persons on the possibility a few guilty persons may be uncovered. Using defendants' logic, the record companies should send a similar demand letter to every person in the United States who owns a CD-Burner and one or more commercial CD's because that person has the necessary equipment to make unauthorized copies of commercial music.
- 10. In engaging in conduct that constitutes unfair competition, each defendant has acquired money or property from members of the general public. Specifically, defendants have acquired the money paid by recipients of the Demand Letters and the value of property forfeited by those persons.
- 11. Pursuant to Business and Professions Code section 17203 and section 17204, plaintiffs are empowered to act as a Private Attorney General to enjoin such conduct in the future and to compel each defendant to identify, locate and restore to the affected persons any money or property that it may have acquired as a result of any act which constitutes unfair competition or to obtain disgorgement of any profits which defendants may have obtained as a result of this conduct. Specifically, defendants should restore to all recipients the money paid and property taken.

- 12. It is impossible for plaintiffs to determine the exact amount of money due to the plaintiffs and class members without a detailed review of defendants' financial books and records.

  Accordingly, plaintiff seeks, among other things, an accounting and/or the appointment of a receiver.
- 13. The aforementioned business practices of defendants are likely to continue and therefore will continue to violate the law and deceive the public unless this court enjoins them.

# SECOND CAUSE OF ACTION FOR INTERFERENCE WITH EXERCISE OF CIVIL RIGHTS BY ALL PLAINTIFFS (BROUGHT AS CLASS ACTION AND INDIVIDUAL ACTION) AGAINST ALL DEFENDANTS

- Plaintiffs incorporate in this cause of action the allegations contained in paragraphs 1 through
   inclusive.
- 2. In violation of Civil Code section 52.1, defendants by means of threats, intimidation and coercion, interfered or attempted to interfere with the exercise and enjoyment by plaintiffs and class members of their constitutional and statutory rights, including their rights under Civil Code section 43 to be free from personal insult, from defamation, and from injury to their personal relations; and their rights under California Penal Code sections 518, 519, 520, 523 and 524 and federal statutes 18 U.S.C. sections 876 and 1951 to be free from extortion or attempted extortion.
- 3. As a result of the aforementioned conduct, policies, practices and customs of defendants, plaintiffs and class members suffered violations of their aforementioned rights, privileges and immunities, for which plaintiffs and class members are entitled to compensation in an amount to be shown according to proof.

- 4. In addition, as a result of the aforementioned conduct, policies, practices and customs of defendants, each plaintiff and each class member is entitled to statutory damages pursuant to Civil Code section 52 of \$4,000 to \$25,000 per violation.
- 5. The aforementioned conduct, policies, practices and customs of defendants were undertaken, aided, authorized, supervised or consented to by each defendant with malice, with a willful and wanton desire and design to violate, and with deliberate indifference to and reckless disregard of, the aforementioned rights of plaintiffs and class members. Such conduct, policies, practices and customs constituted malice, oppression or fraud, and thereby entitle plaintiffs and class members to an award of punitive or exemplary damages in an amount according to proof.
- 6. The aforementioned business practices of defendants are likely to continue and therefore will continue to violate the law and interfere with the civil rights of the public unless this court enjoins them. Plaintiffs and class members have no adequate remedy at law because monetary damages, which may compensate for past interference with plaintiffs' and class members' civil rights, will not afford adequate relief for the fear, humiliation, and risk of injury that a continuation of defendants' conduct in denial of plaintiff's rights will cause.

# THIRD CAUSE OF ACTION FOR EXTORTION AND DURESS BY PLAINTIFF EARL J. MALLET (BROUGHT ON BEHALF OF THE PAYER CLASS AND AS AN INDIVIDUAL ACTION) AGAINST ALL DEFENDANTS)

7. Plaintiffs incorporate in this cause of action the allegations contained in paragraphs 1 through 48, inclusive.

- 8. As alleged above, on or about October 11, 2002, Plaintiff Earl J. Mallet received a Demand Letter from Spencer D. Freeman of Yarmuth Wilsdon Calfo, which was made by defendants with knowledge of the falsity of the claims therein, as set forth above.
- 9. Mr. Mallet was terrified at the threats made in the Letter. He called the law firm and spoke to Gregory Q. Zamudio, who told him that unless he paid \$3,500, he would face severe consequences as set forth in the Letter. Mr. Mallet explained that he had not received or viewed any unauthorized DIRECTV satellite programming and never attempted to do so. He was confused over what records they could possibly possess that showed otherwise. Mr. Zamudio made it clear that he did not care what Mr. Mallet had to say in his defense and that his choice was to pay or face the consequence.
- 10. As a proximate result of defendants' extortionate threats, Mr. Mallet agreed to pay and has paid the sum of \$3,500 to DIRECTV, and is entitled to damages in that sum. In addition, as a proximate result of similar extortionate threats by defendants, thousands of persons, members of the Payers Class, paid sums of money, estimated to be in the millions of dollars, and are entitled to damages in that sum.
- 11. The aforementioned conduct, policies, practices and customs of defendants were undertaken, aided, authorized, supervised or consented to by each defendant with malice, with a willful and wanton desire and design to violate, and with deliberate indifference to and reckless disregard of, the aforementioned rights of plaintiffs. Such conduct, policies, practices and customs constituted malice, oppression or fraud, and thereby entitle plaintiff Mallet and members of the Payers Class to an award of punitive or exemplary damages in an amount according to proof.

#### **REQUEST FOR JURY TRIAL**

Plaintiffs requests trial by jury.

### PRAYER FOR RELIEF

WHEREFORE, plaintiffs pray for judgment on all causes of action against defendants as follows:

- 1. For an order certifying this action as a class action;
- 2. For a declaration of the rights and liabilities of the parties;
- 3. For preliminary and permanent injunctive relief pursuant to Business and Professions Code section 17203 restraining and enjoining defendants from continuing the acts of unfair and unlawful competition and deceptive practices set forth above, requiring defendants to take any acts needed to prevent further violations and requiring defendants to take the affirmative measures to correct the misperceptions caused by their prior conduct;
- 4. For preliminary and permanent injunctive relief pursuant to Civil Code section 52 and 52.1 restraining and enjoining defendants from continuing the acts of interference with civil rights set forth above, requiring defendants to take any acts needed to prevent further violations and requiring defendants to take the affirmative measures to remedy the harm caused by their prior conduct;
- 5. For an order requiring defendants to provide an accounting of all moneys which they may have received and all profits which it may have acquired as a result of the acts and practices found to constitute unfair competition under Business and Professions Code section 17200;
- 6. For an order that defendants identify, locate and make restitution to affected members of the general public, and specifically recipients of the Demand Letters, all funds and the value of

1	15. For such other and further relief as the court may deem proper.		
2	DATED: October 28, 2002		
3	Respectfully submitted,		
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6	Ву	<del></del>	
7		JEFFREY WILENS Attorney for Plaintiffs	
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