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UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

SECURITIES AND EXCHANGE  
COMMISSION,  
  
Plaintiff,  
  
v.  
  
JOHN V. BIVONA, et al.,  
  
Defendant.

Case No. [16-cv-01386-EMC](#)

**ORDER RE SEC’S MOTION FOR  
ORDER ESTABLISHING  
SHORTFALLS AND REQUEST FOR  
RECOGNITION OF CLAIM BY  
PROGRESSO VENTURES, LLC AND  
GLOBAL GENERATION GROUP LLC**

Docket No. 353

Before the Court are three requests for relief. First, the SEC requests an order establishing a shortfall in Palantir of at least 182,243 shares and at most 1,844,926, depending on how Global Generation and Progresso Ventures’ claims are characterized and whether the Equity Acquisition Company (EAC) delivers certain shares to the Receivership. The SEC further advises the Court there may be shortfalls in other companies if the EAC does not deliver interests in those companies. The SRA Investor Group argues that it is premature to determine whether any share shortfall exists in light of the uncertainty about EAC.

Second and third, Global Generation Group LLC (“Global”) and Progresso Ventures, LLC (“Progresso”) both request that the Court classify them as creditors in the amount of money judgments they have already received, but allow them to recover as shareholders in Palantir should there be a liquidation event in which they would earn more than what can be recovered through their money judgments. The SEC is agnostic as to Progresso and Global’s requests, but the SRA Investor Group argues they should be classified only as judgment creditors and that Progresso’s claim amount should also be reduced.

For the reasons below, the Court concludes that Global cannot recover as *both* a creditor

1 *and* an investor and that Progresso may only recover as a creditor. At this time, however, the  
2 Court does not decide how Global’s claim will be classified or how Progresso’s claim will be  
3 prioritized; these issues will be addressed in conjunction with the distribution plan and will be  
4 informed by the supplemental briefing ordered by the Court, *see* Docket No. 379. Further, the  
5 Court concludes that there will be a share shortfall of at least 182,243 shares in Palantir, but that it  
6 is premature to assess the remaining shortfalls at this time. Thus, the competing distribution plans  
7 should account for the possibility that there will be a share shortfall (of varying magnitude) and a  
8 cash shortfall (to satisfy outstanding monetary judgments and the claims of Square investors).

9 **I. DISCUSSION**

10 A. Global Generation’s Claim

11 There are two issues with Global’s claim: first, whether it may be treated as a judgment  
12 creditor only or also as a claimant for shares; and, second, if it is treated as having a claim to  
13 shares, whether the SEC’s calculation of 408,333 shares or Global’s amount of 625,666 shares is  
14 correct.

15 1. Factual Background

16 Global and Benchmark Capital are Michigan limited liability companies for whom John  
17 Syron is the managing member. In October 2011, Global Generation purchased 933,333 shares of  
18 Palantir through Defendants for a total of \$2.8 million. Defendants confirmed the purchase of  
19 933,333 shares at \$3 a share. Separately, Global Generation invested approximately \$3.2 million  
20 through Defendants in Facebook, Inc., for a price of approximately \$30 a share. Benchmark also  
21 invested \$331,695.96 in Facebook on October 4, 2011. Global Generation and Benchmark both  
22 entered into agreements with Defendants that they could “put back” some or all of the securities  
23 they purchased through Defendants, obliging Defendants to reimburse them the amount of their  
24 original investments. These facts are uncontested.

25 In October 2012, Global and Benchmark both exercised their put back right on their  
26 Facebook shares because the value had dropped to \$19 by the time the post-IPO lock-up period  
27 had expired, compared to the \$30 per share at which they purchased them. Though it took some  
28 time, Defendants ultimately reimbursed Global and Benchmark for the full amount of the

1 Facebook investments, approximately \$3.2 million to Global Generation and \$347,258.22 to  
2 Benchmark.

3 Also in October 2012, Global exercised its right to put back its Palantir shares (Benchmark  
4 never purchased shares in Palantir through Defendants) for reimbursement of the \$2.8 million  
5 investment. Between October 2012 and October 2013, Defendants failed to reimburse Global that  
6 amount. In October 2013, Global sent a letter to Defendants noting the failure to pay and instead  
7 requesting that they “transfer control” of the Palantir shares to Global. Docket No. 198 (Syron  
8 Decl.) ¶¶ 10-11. That transfer did not occur, but Defendants began to make payments to Global  
9 Generation, ultimately reimbursing it for \$923,000 out of its \$2.8 million investment. Thus, as of  
10 November 2013, \$1,877,000 remained unreimbursed.

11 In December 2013, Global sued Defendants for federal securities fraud, breach of contract,  
12 and state law tort claims in the Eastern District of Michigan. In that suit, Global sought only  
13 money damages; it did not seek relief in the form of Palantir shares. The claims went to  
14 arbitration, where Global obtained a final award (later confirmed in a judgment) for:

- 15 • \$1,700,000
- 16 • Interest from Dec. 1, 2012 to Jun. 15, 2015 at 5.75% (\$244,241.10)
- 17 • Interest for delayed repayment in respect of Palantir put of \$59,012.33;
- 18 • Interest for delayed repayment in respect of Facebook put \$104,179.17;
- 19 • Attorneys’ fees of \$66,624.43 and costs of \$5,378.93
- 20 • Arbitration fees of \$48,135.00

21 Supp. Syron Decl., Ex. 1-C. The judgment, for a total of \$2,227,570.96, provides an award for  
22 money only, not injunctive relief for return of shares. Despite efforts to collect, Global has not yet  
23 been successful in recovering any amount of the judgment.

24 2. Discussion

25 Global proposes that it be treated as a creditor up to the amount of its judgment, but also as  
26 a shareholder if a Palantir liquidating event generates proceeds that exceed the amount of shares  
27 effectively distributed to Global.

28 All parties agree that the Court has “broad powers and wide discretion” to determine how

1 relief is distributed in an equity receivership. *S.E.C. v. Basic Energy & Affiliated Res., Inc.*, 273  
 2 F.3d 657, 668 (6th Cir. 2001). In general, courts recognize that “all victims of the fraud [should]  
 3 be treated equally.” *United States v. Real Property Located at 13328 and 13324 State Highway*  
 4 *75 North*, 89 F.3d 551, 553 (9th Cir. 1996) (citation omitted). This principle is most often applied  
 5 to reject the tracing of assets “when doing so would allow one fraud victim to recover all of his  
 6 losses at the expense of other victims.” *U.S. v. Wilson*, 659 F.3d 947, 956 (9th Cir. 2011).  
 7 However, it does not mean that all claimants are always treated the same no matter the  
 8 circumstances. To the contrary, the Court may treat claimants differently if it has a reasonable  
 9 basis for doing so. *See S.E.C. v. Wang*, 944 F.2d 80, 85-87 (2d Cir. 1991) (approving distribution  
 10 plan permitting different levels of recovery between stock and options traders “because of  
 11 differences in the nature of losses borne by such traders as a result of defendants’ misconduct” and  
 12 because options traders “assumed great risk of loss”); *see also SEC v. Wealth Mgmt., LLC*, 628  
 13 F.3d 323, 333 (7th Cir. 2010) (explaining that “district courts supervising receiverships have the  
 14 power to classify claims sensibly,” including “the authority to subordinate the claims of certain  
 15 investors to ensure equal treatment”).

16 Global’s main argument for hybrid treatment allowing for both money and shares is that it  
 17 should not be penalized for acting to mitigate its losses by seeking to enforce its put rights in  
 18 court. In other words, Global suggests that it will be unfairly penalized because it will lose the  
 19 upside from a possible Palantir liquidation event.

20 This argument is not persuasive. Global’s loss of the potential reward from increase in  
 21 Palantir share value is a result of its own decisionmaking, not Defendants’ conduct. Global opted  
 22 to exercise its put right and in so doing abandoned the potential upside of an investment in Palantir  
 23 shares. Global opted to sell its shares back to Defendants at the pre-determined price. Thereafter,  
 24 Global sued Defendants and sought a money judgment—not restitution or delivery of shares.<sup>1</sup>  
 25 Thus, at two steps, Global elected to abandon its potential investment in Palantir.

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 27 <sup>1</sup> The SEC’s contention that a redemption is not completed or “settled” until payment is made, *see*  
 28 SEC Mot. at 2, n.1, is inapposite because Global did not only invoke the put, but also sued to  
 reduce its claim to judgment. No authority has been cited that a redemption remains incomplete  
 even after a claim has been reduced to judgment.

1 Global’s election situates it differently from other investors. The election of remedies  
2 doctrine “prevent[s] a party from obtaining double redress for a single wrong” and thus applies  
3 when “(1) two or more remedies . . . existed at the time of the election, (2) these remedies [are]  
4 repugnant and inconsistent with each other, and (3) the party to be bound . . . affirmatively  
5 chose[, or elected, between the available remedies.” *Teutscher v. Woodson*, 835 F.3d 936, 955-56  
6 (9th Cir. 2016) (holding that plaintiff alleging retaliatory discharge could choose either  
7 reinstatement or front pay, but not both for the same period of time) (citations and quotations  
8 omitted). Thus, faced with Defendants’ breach, Global could have either sought to recover its  
9 shares or the amount of its original investment pursuant to the put. It could not have been awarded  
10 both. Having been awarded full monetary judgment, it is not entitled to Palantir shares as well;  
11 this would sanction double or overlapping recovery. The relief Global now seeks is barred by its  
12 election of remedy.

13 It is also barred by the merger doctrine. The merger doctrine provides that “[w]here the  
14 plaintiff brings an action against the defendant and a valid and final judgment for the payment of  
15 money is rendered in favor of the plaintiff, the original claim of the plaintiff is extinguished and a  
16 new cause of action on the judgment is substituted for it. In such a case the plaintiff’s original  
17 claim is merged in the judgment.” Restatement (First) of Judgments § 47 (1942); *see also Filice v.*  
18 *U.S.*, 271 F.2d 782, 783 (9th Cir. 1959) (explaining that “the common law doctrine is that the  
19 original cause of action becomes merged in the judgment, and all the plaintiff can thereafter do is  
20 to sue on the judgment”). Because Global has obtained a money judgment for its “claim” against  
21 Defendants, its original “claim” (whether for shares or money) has been extinguished, and all it  
22 can do now is recover on the money judgment. This does not “penalize” Global for attempting to  
23 mitigate the harm from Defendants’ fraud and/or breach; the arbitration award includes damages  
24 plus attorneys’ fees and costs, thereby making Global whole.

25 Finally, Global’s claim is further barred by res judicata. Res judicata “bars litigation in a  
26 subsequent action of any claims that were raised or could have been raised in the prior action.”  
27 *Owens v. Kaiser Foundation Health Plan*, 244 F.3d 708, 713 (9th Cir. 2001). To the extent  
28 Global sought only money but not shares or lost profit damages in its prior litigation, it cannot

1 now make an alternative claim for those remedies when it could have sought, but did not seek, in  
2 the first case.

3 Contrary to Global’s assertion, application of those principles here does not result in  
4 inequitable treatment.<sup>2</sup> Instead, to allow Global to have its cake and eat it too would come at the  
5 expense of other shareholders. Unlike other “investors,” Global would be afforded a full money  
6 judgment *plus* an equity interest; other shareholders would not have the security or advantage of a  
7 cognizable money judgment in addition to their claim to an equity interest in the shares.<sup>3</sup>

8 For these reasons, Global’s claim is limited to either that of a creditor or an investor—not  
9 both. The question whether Global may still elect between the two remains open pending  
10 supplemental briefing and determination of a distribution plan.

11 3. If Global is Treated as a Shareholder, the Amount is 625,666

12 Global also disputes the SEC’s calculation of the number of shares to which it would be  
13 entitled were it not classified as a money judgment creditor. The SEC’s analysis would assign  
14 408,333 shares to Global, whereas Global contends the correct number is 625,666 shares. At the  
15 hearing, the SEC stated that it did not dispute Global’s number. Thus, the material facts  
16 concerning the record are not in dispute. For the reasons below, the Court agrees that Global  
17 would be entitled to 625,666 shares, not 408,333.

18 The issue rests on whether certain undisputed payments made to Global and Benchmark  
19 are attributed to their investments in Palantir or in Facebook. In particular, the SEC relied on  
20 Defendants’ ledgers which identify 11 payments to Global/Benchmark, six of which were made to  
21 Benchmark for a total of \$347,259.00. *See* Docket No. 200, Exs. 5 (p. 56), 5-A (p. 57), 5-B (p.  
22 58), 5-C (p. 59), -E (p. 61) and 5-F (p. 62). Global does not dispute that those payments were

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24 <sup>2</sup> *Compare S.E.C. v. Capital Consultants, LLC*, 397 F.3d 733 (9th Cir. 2005) (refusing to apply  
25 common law “collateral source” rule to prevent offsets because the rule “would make for a more  
26 inequitable distribution of assets by recognizing more loss than the[] appellants actually suffered”  
and would not relieve tortfeasors of their conduct but rather “only affected the distribution of  
limited receivership funds . . . to the various innocent . . . clients”).

27 <sup>3</sup> *Cf. Wealth Mgmt.*, 628 F.3d at 333 (explaining that district court in receivership distribution  
28 plan could apply the doctrine of equitable subordination to look at the substance of a claim rather  
than its form, and thereby could treat all shareholders alike, even if some had redeemed the shares  
and thus technically became unsecured creditors).

1 made, but argues that the ledgers inaccurately identify the payments as redemption for  
2 Benchmark’s investments in Palantir. In fact, Benchmark never invested in Palantir—it invested  
3 only in Facebook. Supp. Syron Decl. ¶ 5. Thus, the ledgers are mistaken. The payments should  
4 have been allocated to Benchmark’s investments in Facebook—not to Global’s investments in  
5 Palantir.

6 Further, Global contends that the ledgers are inaccurate insofar as they claim that three  
7 payments to Global were made for redemption of Palantir. See Docket No. 200, Exs. 5 (56), 5-D  
8 (60), 5-F (62), and 5-G (63). According to Global, they were actually for redemption of Facebook  
9 shares because they were made in July 2013, whereas contemporaneous communications between  
10 Global and Defendants indicate that as of October 16, 2013, Global continued to maintain that no  
11 payments had been made to redeem Palantir shares. See Docket No. 198 (Syron Decl.) and Ex. 5  
12 ¶¶ 10-11 (Oct. 15, 2013 e-mail from Syron demanding the delivery of the Palantir shares). As  
13 Global argues, it took that position even before Ms. Ip’s declaration misclassifying the payments  
14 was filed in June 2017 (Docket No. 200). See also Supp. Syron Decl. ¶ 1. There does not appear  
15 to have been an incentive at the time to misrepresent the payments received from Defendants and  
16 there is no evidence that Defendants disagreed with Syron’s claims of non-payment regarding  
17 Palantir. No party has introduced evidence to challenge Global’s assertion or the reliability of its  
18 evidence.

19 Ultimately, this dispute means that Global has been reimbursed for \$923,000 of its \$2.8  
20 million investment in Palantir, leaving a total of 625,666 unredeemed Palantir shares at the price  
21 of \$3/share, rather than 408,333 shares as calculated by Ms. Ip for the SEC. Because the evidence  
22 supports Global’s position and no party has challenged or introduced contrary evidence,<sup>4</sup> if this  
23 issue were relevant, the Court would adopt Global’s position regarding the number of shares (if it  
24 is treated as an investor).

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<sup>4</sup> In passing, the SRA Investor Group says that Global’s claim is “inconsistent” with the Receiver’s records, but that merely cites back to Defendants’ mistaken classification of the payments. See SRA Br. at 6, n.7.

1 B. Progresso Ventures is a Money Creditor, Not an Investor Claimant

2 Progresso Ventures also seeks hybrid treatment as a creditor up to the amount of its money  
3 judgment *and* a shareholding investor for any profits above that amount resulting from a Palantir  
4 liquidation event. Progresso’s argument for shareholder treatment is in some ways weaker than  
5 Global’s. Progresso, unlike Global, *never* invested in *any* shares or securities. Rather, it gave FB  
6 Management (not a defendant or receivership entity) a *loan* guaranteed by Defendants Bivona and  
7 Mazzola so that they could purchase shares in Facebook. FB Management defaulted on the loan,  
8 allegedly because the money was diverted to purchase shares in Palantir for other persons (after  
9 being funneled by Bivona/Mazzola from FB Management to Clear Sailing through FMOF II).  
10 Progresso thereafter brought suit on the note to recover the unpaid principal and interest. It has  
11 never brought suit to seek the disgorgement-type remedy for recovery of Palantir shares it asserts  
12 now against Clear Sailing.

13 The questions before the Court are whether Progresso should be treated only as a money  
14 judgment creditor or whether Progresso also has a claim to the Palantir investment made with the  
15 diverted funds. Also, the SRA Investor Group argues that if Progresso is treated as a creditor, the  
16 amount of its judgment should be reduced.

17 1. Factual Background

18 Eduardo Saverin, one of the co-founders of Facebook, lent FB Management Associates,  
19 LLC (one of the Mazzola entities) \$4 million to purchase pre-IPO shares of Facebook. Pritzker  
20 Decl., Ex. A at ¶¶ 1-3. Saverin formed Progresso Ventures LLC and thereafter assigned it his  
21 interest in the loan. The loan amount was subject to a 15% annual, compound interest rate. If a  
22 Facebook IPO was successful, Progresso would be entitled to a portion of the profits over and  
23 above the loan amount. *Id.* at ¶¶ 7, 9. The Note was to mature within 30 days of a Facebook  
24 liquidity event but no later than February, 16, 2014. *Id.* ¶ 8. The liquidity events occurred in June  
25 and July of 2011. *Id.* ¶ 5. In April 2012, Progresso informed FB Management that the loan was  
26 due, at that time in the amount of \$4,479,689, including principal, interest, and a portion of the  
27 profits earned over the loan amount. Pritzker Decl., Ex. B ¶ 20. Between May and July 2012, FB  
28 Management repaid \$2,939,008, leaving an unpaid balance of about \$1.5 million. Pritzker Decl.,



1 Ex. A ¶ 11. That money was apparently diverted from FB Management to FMOF II to Clear  
2 Sailing to purchase Palantir shares for other investors, without Progresso’s knowledge or  
3 permission.

4 Three years later, in July 2015, Progresso sued FB Management in New York state court.  
5 Because of the 15% interest rate, the amount due at that time had grown from \$1.5 million to  
6 \$3.76 million. *Id.* ¶ 1. Progresso sought only the recovery of this amount; it did not seek any  
7 shares in Palantir or disgorgement of profits earned by Defendants. *Id.*

8 In opposing Progresso’s lawsuit, FB Management claimed it had entered into an oral  
9 agreement with Progresso/Saverin in November 2011 to invest the remaining balance in Palantir  
10 shares. *See* Docket No. 360-5 at ¶ 11. Progresso denied that representation. Pritzker Decl., Ex. C  
11 at ¶¶ 5-7 (Saverin declaration in NY action stating that “I never asked Mr. Mazzola or anyone else  
12 affiliated with FB Management or Felix Investments LLC to reinvest the proceeds of the Note into  
13 any other fund, including a fund related to Palantir,” “[n]or did I ever agree to any such  
14 investment”) and Ex. D at pp. 4-8 (arguing there had been no oral modification to the loan  
15 agreement); *see also* Docket No. 199 (Saverin Decl.) ¶ 4 (“I have never authorized the  
16 reinvestment of the Note proceeds in Palantir shares or any other investment.”).

17 In October 2016, the New York court entered summary judgment for Progresso against FB  
18 Management based on the terms of the Note, awarding a total of \$5,529,364.25 based on  
19 \$3,171,508.93 in outstanding principal, \$392,311.31 in accrued interest, \$363,374.96 as additional  
20 returns, \$1,544,147.10 in legal fees, and \$58,021.95 in disbursements. *See* Docket No. 360-2.  
21 The judgment does not award Progresso disgorgement of profits or the delivery of any shares.  
22 Progresso never sought such a remedy; nor did it *seek* to join Clear Sailing as a party.

23 2. Progresso’s Investor Claim

24 As noted above, the SEC’s investigation shows that Progresso’s loan monies were diverted  
25 from FB Management to FMOF II to Clear Sailing, and that Clear Sailing thereafter used the  
26 money to purchase 3.1 million shares in Palantir for other investors unrelated to Progresso. *See*  
27 Docket No. 200 (Ip Decl.) at ¶ 17. Progresso argues that it never requested or authorized the use  
28 of its money to make that purchase. This evidence is uncontested.

1           Progresso contends that, in light of the diversion of its moneys, it has a restitution claim for  
2 disgorgement against Clear Sailing distinct from the breach of loan agreement and guaranty causes  
3 of action it maintained against FB Management, Bivona, and Mazzola. The SRA Investor Group,  
4 however, argues that Progresso, like Global, is precluded from pursuing that claim based on the  
5 doctrines of merger, res judicata, and election of remedies.

6           It is questionable whether Progresso’s claim herein for disgorgement is barred by merger,  
7 res judicata, and election of remedies. FB Management and Clear Sailing are distinct entities and  
8 the SRA Investor Group has not demonstrated privity between the two. *See Watts v. Swiss Bank*  
9 *Corp.*, 27 N.Y.2d 270, 275 (1970) (“The burden of proof in establishing the conclusive effect in  
10 the rendering jurisdiction of a prior judgment is upon the party asserting it.”). Although FB  
11 Management was controlled by Bivona and Mazzola (in addition to insider Emilio DiSanluciano),  
12 and Bivona controlled Clear Sailing, *see* Compl. ¶¶ 20, 37, that fact alone may not be sufficient to  
13 demonstrate privity. *See Blue Sky, LLC v. Jerry’s Self Storage, LLC*, 44 N.Y.S.3d 173, 176 (2016)  
14 (where debtors re-loaned money to third-party entity in which they held an 80% stake, the plaintiff  
15 creditor who had previously sued debtors was not precluded from bringing subsequent, separate  
16 suit against third-parties because privity was not shown). “[P]rivity does not have a single well-  
17 defined meaning” but is rather “an amorphous concept [which] includes those who are successors  
18 to a property interest, those who control an action although not formal parties to it, those whose  
19 interests are represented by a party to the action, and those who are coparties to a prior action.”  
20 *Buechel v. Bain*, 97 N.Y.2d 295, 304 (2001) (quotations, citations, and alterations omitted). The  
21 SRA Investor Group has not demonstrated that Clear Sailing is a successor in interest to FB  
22 Management; that Clear Sailing controlled the legal defense in Progresso’s prior litigation against  
23 FB Management; that FB Management or Bivona/Mazzola represented Clear Sailing’s distinct  
24 interests in the prior litigation; or that Clear Sailing was a co-party.

25           Furthermore, the causes of action against FB Management and Clear Sailing appear to  
26 have arisen at different times and out of different facts: the loan agreement was breached as soon  
27 as repayment was not made, but potential claims related to the diversion and mis-use of funds  
28 accrued at a different point in time and were in some ways independent of FB Management’s

1 breach. Facts establishing the breach by FB Management are not identical to those establishing  
2 diversion by Clear Sailing. For res judicata purposes, the claims arguably do not “spring from the  
3 same ‘transaction’ or ‘claim.’” *Paramount Pictures Corp. v. Allianz Risk Transfer AG*, 31 N.Y.3d  
4 64, 78 (2018) (explaining that courts look to “whether the underlying facts are related in time,  
5 space, origin, or motivation, whether they form a convenient trial unit, and whether their treatment  
6 as a unit conforms to the parties’ expectations or business understanding or usage” (quotations and  
7 citations omitted)).

8 Nonetheless, Progresso’s present claim for relief is problematic. In effect, Progresso seeks  
9 non-restitutionary disgorgement against a third party with whom it did not transact.

10 Progresso, to support its claim, relies on *Nickel v. Bank of Am. Nat. Trust & Sav. Ass’n*,  
11 290 F.3d 1134 (9th Cir. 2002), which states that “[t]he elementary rule of restitution is that if you  
12 take my money and make money with it, your profit belongs to me,” *id.* at 1138. However, *Nickel*  
13 involved a claim for breach of a trustee’s fiduciary duty brought directly against the trustee who  
14 owed the duty. The principle of non-restitutionary disgorgement is applied as a matter of course  
15 on a claim for breach of fiduciary duty. *See Nickel*, 290 F.3d at 1138 (citing Restatement (First) of  
16 Restitution § 1 (1937) (“[W]here a person in a fiduciary relation to another makes a profit in  
17 connection with transactions conducted by him as fiduciary, he is ordinarily accountable to his  
18 beneficiary for the profit, although the beneficiary suffered no loss[.]”). *Nickel* does not discuss  
19 whether a similar remedy is available in a claim for tortious interference with contract, the theory  
20 Progresso asserts against Defendants here. Such a claim, disgorgement of profits “will not be  
21 afforded when the plaintiff’s remedies at law are adequate to redress his or her injury.” *Ramona*  
22 *Manor Convalescent Hosp. v. Care Enter.*, 177 Cal.App.3d 1120, 1140 (1986) (jury award to  
23 plaintiff which included lost profits damages under interference with contract tort in addition to  
24 disgorgement of defendant’s profits under unjust enrichment was erroneous because “an action for  
25 unjust enrichment is inappropriate [when the plaintiff] can obtain full redress for its lost profits  
26 under its action for [intentional interference with contract]”).<sup>5</sup> Progresso’s money judgment is an

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28 <sup>5</sup> Although *Ramona* is a California case, it applied the Restatement of Restitution, which is also  
relied upon by New York courts. *See Paramount Film Distributing Corp. v. State*, 30 N.Y.2d 415,

1 adequate remedy at law. Moreover, even as against FB Management, it does not appear that  
2 Progresso would have been entitled to disgorgement of profits based on the breach of the loan  
3 agreement itself. *See* § 22:2 28A N.Y. Prac., Contract Law § 22:2 (“Disgorgement is usually not a  
4 remedy for breach of contract because disgorgement sets damages in light of defendant’s gains, as  
5 opposed to the loss to plaintiff resulting from the breach.”). *See U.S. Naval Inst. v. Charter*  
6 *Commc’ns, Inc.*, 936 F.2d 692, 696 (2d Cir. 1991) (holding that trial court did not err by awarding  
7 damages based on plaintiff’s actual damages rather than defendant’s profits from breach of  
8 contract because, unless “the defendant’s profits . . . tend to define the plaintiff’s loss,” such an  
9 award “would tend to be punitive, and punitive awards are not part of the law of contract  
10 damages”).

11 In any event, *Nickel* does not recognize a non-restitutionary disgorgement remedy brought  
12 against a third-party other than the original tortfeasor. Here, Progresso seeks to recover the profits  
13 that were made by Clear Sailing, who ultimately received the monies Progresso loaned to FB  
14 Management LLC after Bivona transferred the funds through FMOF II. Progresso has not cited  
15 any cases holding that a non-restitutionary disgorgement remedy (as opposed to damages) can be  
16 pursued from a third party with whom the plaintiff had no dealing. *Cf. Nickel*, 290 F.3d at 1138  
17 (disgorgement permitted directly against tortfeasor); *Aguayo v. U.S. Bank*, 200 F.Supp.3d 1075  
18 (S.D. Cal. 2016) (same). Although that circumstance was present in one cited case, the issue was  
19 not discussed or analyzed by the court. *See SEC v. Wencke*, 783 F.2d 829 (9th Cir. 1989)  
20 (rejecting due process challenge by a shareholder in Ramapo Corporation to a disgorgement order  
21 requiring Portsmouth Square, Inc. (“PSI”) to disgorge its shares in Ramapo which it purchased  
22 with money diverted by defendant Wencke (who controlled PSI) from other companies he  
23 controlled).

24 Even assuming that Progresso could in theory have stated a valid claim for disgorgement  
25 of profits against Clear Sailing, the equities do not weigh in favor of affording that remedy here.  
26 The alleged wrongdoers according to Progresso are, at best, FB Management, Bivona/Mazzola,

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28 421 (1972); *Alan B. Greenfield, M.D., P.C. v. Long Beach Imaging Holdings, LLC*, 981 N.Y.S.2d  
135, 137 (2014).

1 FMOF II, and Clear Sailing. Those alleged wrongdoers do not stand to gain if Progresso’s  
2 disgorgement claim is denied. The purpose of the remedy of non-restitutionary disgorgement to  
3 deprive to the wrongdoer of unjust gain would not be fulfilled here. Rather, recognition of the  
4 claim would, at this point, “only affect[] the distribution of limited receivership funds . . . to the  
5 various innocent [investors].” *Capital Consultants*, 397 F.3d at 743. It “would make for a more  
6 inequitable distribution of assets by recognizing more loss than [Progresso] actually suffered”  
7 rather than relieve the wrongdoers of punishment for their conduct. *Id.* at 738. Thus, in the  
8 context of this receivership, equitable principles suggest that Progresso’s recovery from the  
9 innocent victims should not exceed the amount of its loss (*e.g.*, either the amount of money owed  
10 on its note and diverted to Clear Sailing or the amount of its money judgment), but not to profits  
11 earned from the use of its money.<sup>6</sup>

12 For these reasons, the Court will not allow Progresso to maintain an investor claim.  
13 Progresso is limited to recovery on its money judgment as a creditor.

14 3. Reduction of Progresso’s Money Judgment

15 Separately, the SRA Investor Group argues that Progresso’s money judgment for \$4.5  
16 million should be reduced to a more “reasonable” amount. The basis for the SRA Investors’  
17 argument is that Progresso’s unpaid principal was only \$1.5 million which has compounded to  
18 \$5.5 million over time by virtue of the 15% interest rate, \$1.6 million in attorneys’ fees, and other  
19 costs. SRA challenges the reasonableness of the attorneys’ fee award, comparing the \$1.6 million  
20 awarded to Progresso’s lawyers with the \$66,000 awarded to Global’s lawyers.

21 The Court is bound to recognize the New York state court’s judgment.<sup>7</sup> However, it is  
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23 <sup>6</sup> See Restatement (Third) of Restitution and Unjust Enrichment § 41 (2011) (“[T]he enrichment  
24 of innocent recipients of misappropriated financial assets—a class essentially limited to third-party  
25 donees from the wrongdoer—will normally be measured by the amount received, including  
26 interest and proceeds, *but without liability for consequential gains*. [T]he consequential gains for  
27 which the conscious wrongdoer is liable (and the innocent recipient is not) are usually derived  
28 from a profitable subsequent investment of misappropriated funds.” (emphasis added)).

<sup>7</sup> See 28 U.S.C. § 1278 (holding that the records and judicial proceedings of any state court “shall  
have the same full faith and credit in every court within the United States . . . as they have by law  
or usage in the courts of such State . . . from which they are taken”); *U.S. ex rel. Robinson  
Rancheria Citizens Council v. Borneo, Inc.*, 971 F.2d 244, 250 (9th Cir. 1999) (“The preclusive  
effect accorded a state court judgment in a subsequent federal court proceeding is determined by

1 unclear whether the Court has equitable authority either to reduce the amount of the claim or to  
2 alter its priority, either in whole or in part, vis-à-vis other investors or creditors. This issue  
3 remains open subject to supplemental briefing and consideration of the proposed distribution  
4 plans.

5 C. The SEC’s Request for a Finding of Shortfall

6 Having determined how Progresso and Global’s claims should be classified, the Court  
7 reviews the SEC’s request for a finding of shortfall.

8 1. Palantir Shortfall

9 Based on Ms. Ip’s updated analysis—which no party contests—Clear Sailing currently has  
10 5,422,600 Palantir shares available for distribution. Ip. Supp. Decl. ¶ 5 and Ex. 2-A at 1. If EAC  
11 delivers the shares owed to Clear Sailing, then there will be 5,740,249 shares available for  
12 distribution. *Id.* ¶ 6 and Ex. 2-A at 2.

13 The disagreement arises with respect to how many Palantir shares are owed to investors.  
14 Treating Global Generation as an investor with a claim to 408,333 shares, Ms. Ip counts an  
15 obligation of 6,330,825 Palantir shares. *Id.* ¶ 3. Thus, Ms. Ip calculates a 590,576 share shortfall  
16 (including Global’s claim) which could rise to 908,225 if EAC fails to deliver the shares. *Id.* ¶¶ 2,  
17 7, 10. This does not include Progresso’s claim, which Ms. Ip calculates could be 503,558 if its  
18 \$1,510,672.50 interest is allocated to the purchase of \$3.00 per share, or 719,368 at \$2.10 per  
19 share. *Id.* ¶¶ 8-10. Progresso argues for a \$2.10 share price because that is the price at which  
20 Defendants in fact purchased the stock. *See* Docket No. 197 at 5-6.

21 In light of the Court’s holding that Progresso’s claim will be limited to recovery of its  
22 money judgment, Progresso’s claim to shares will not be considered in calculating the Palantir  
23 shortfall. However, the question whether Global may choose between creditor or investor status  
24 remains open subject to supplemental briefing. If Global is permitted to make an election, then, as  
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26 reference to the laws of the rendering state.”); *Fiore v. Oakwood Plaza Shopping Ctr., Inc.*, 78  
27 N.Y.2d 572, 577 (1991) (“[R]eview by the courts of this State is limited to determining whether  
28 the rendering court had jurisdiction, an inquiry which includes due process considerations. Thus,  
inquiry into the merits of the underlying dispute is foreclosed; the facts have bearing only in the  
limited context of our jurisdictional review.”).

1 explained above, the Court will credit it with a claim to 625,666 shares. With these assumptions  
 2 in mind, the evidence indicates that the Palantir shortfall will depend on whether Global is treated  
 3 as an investor or creditor and on whether EAC delivers on the obligated shares, as charted:

	<b>EAC Delivers 317,649</b>	<b>EAC Does Not Deliver</b>
<b>Global (Creditor Only)</b>	182,243	499,892
<b>Global (Investor With 625,666)</b>	807,909	1,125,558

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 9 It is premature to determine the exact shortfall with certainty because the dispute with EAC  
 10 remains outstanding and Global’s treatment will depend on the supplemental briefing. As stated at  
 11 the hearing, the parties’ proposed distribution plans should therefore take these contingencies into  
 12 consideration.

13 2. Shortfalls in Other Companies

14 The SEC points to two other shortfalls.

15 First, the SEC says that there will be a shortfall with respect to Square, Inc. investors  
 16 because, when the receivership began, 97,000 shares had not yet been distributed to investors; the  
 17 Receiver subsequently sold them but the amounts were not given to investors. An unspecified  
 18 amount of those proceeds have gone to pay the receiver’s expenses (with Court approval). As a  
 19 result, the receiver cannot distribute Square shares to investors without re-purchasing them. It is  
 20 unclear at this time how much money is owed to Square investors. No party disputes that there  
 21 will be a shortfall however. The parties’ distribution plans therefore should account for this  
 22 shortfall.

23 Second, the SEC says that there could be a shortfall if EAC does not deliver shares owed  
 24 to the Receivership in 5 companies, as shown below. Chen Decl. ¶ 7. In the table below, the  
 25 Court juxtaposes that information with the Receiver’s report regarding the number of valid claims  
 26 received per company. See Docket No. 340-1, Ex. A.

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Company	Potential Shortfall if EAC Does Not Deliver	Total Valid Claims
Uber	500	500
Airbnb	11,125	11,125
Pinterest	69,614	39,597
Lyft	9,479	9,479
Practice Fusion	545,094	1,462,273

No party disputes the number of shares owed by EAC. Based on the unresolved nature of the dispute with EAC, it is premature to determine at this time whether a shortfall exists. It appears, however, that the potential Pinterest shortfall has been overstated in light of the small number of claims made. Further, the Practice Fusion shares are reportedly nearly worthless, retaining a value of \$0.014 per share or a total value of approximately \$7,631.32 to investors. The parties' proposed distribution plans should account for these contingencies as well as the possibility of a surplus in Pinterest shares. As discussed at the hearing, the Receiver shall provide an update about the status of the dispute with EAC before the next case management conference. Finally, there are outstanding money judgments. If shares need to be liquidated to come up with cash to pay judgment creditors, there will be an additional shortfall of shares.

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**II. CONCLUSION**

For the reasons explained above, the Court holds that: (1) Progresso may recover only as a money judgment creditor; (2) Global may not recover as both a creditor and an investor—the precise treatment of its claim remains an open question pending supplemental briefing; (3) if Global is treated as an investor, the correct allocation is 625,666 shares; and (4) the SEC has demonstrated a shortfall in Palantir shares between 182,243 and 1,125,558, depending on whether EAC delivers shares owed and how Global is classified. The remaining issues remain open pending supplemental briefing, proposal of distribution plans, and resolution of the dispute with EAC.

This order disposes of Docket Nos. 353, 359, and 360.

**IT IS SO ORDERED.**

Dated: July 30, 2018

  
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EDWARD M. CHEN  
United States District Judge