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 9
 10 UNITED STATES DISTRICT COURT
 FOR THE NORTHERN DISTRICT OF CALIFORNIA
 11
 12 SAN JOSE DIVISION

13 PERFECT 10, INC., a California corporation,

14 Plaintiff,

15 v.

16 VISA INTERNATIONAL SERVICE
 ASSOCIATION; FIRST DATA CORP, a
 corporation; CARDSERVICE
 17 INTERNATIONAL, INC., a corporation;
 MASTERCARD INTERNATIONAL
 18 INCORPORATED, a corporation;
 HUMBOLDT BANK, a national banking
 19 association; and DOES 1 through 100,
 inclusive,

20 Defendants.
 21

Case No. CV 04 00371 JW (PVT)

**DEFENDANT VISA INTERNATIONAL
 SERVICE ASSOCIATION'S MOTION FOR
 AWARD OF ATTORNEYS' FEES AND
 COSTS**

Date: January 31, 2005
 Time: 9:00 a.m.

The Hon. James Ware
 Courtroom 8, 4th Floor

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

	<u>Page</u>
I. INTRODUCTION	1
II. RELEVANT PROCEDURAL BACKGROUND	1
III. ARGUMENT	2
A. Standards Applicable To An Award Of Defense Attorneys' Fees	2
B. Visa is Entitled To Its Expenses Incurred Defending Plaintiff's Copyright Claim	3
C. Defense Fees Should Be Awarded Since Plaintiff's Trademark Case Was "Exceptional"	6
IV. THE COPYRIGHT AND TRADEMARK CLAIMS DOMINATED THE ACTION AND OVERLAPPED THE STATE LAW CLAIMS ASSERTED	10
V. THE ATTORNEYS' FEES INCURRED BY VISA WERE REASONABLE	14
VI. CONCLUSION	15

TABLE OF AUTHORITIES

Page

Cases

1

2

3

4 *A & M Records, Inc. v. Napster, Inc.*

5 239 F.3d 1004 (9th Cir. 2001)..... 9

6 *Adobe Systems Inc. v. Canus Productions, Inc.*

7 173 F.Supp.2d 1044 (C.D. Cal. 2001)..... 6

8 *Apple Computer Inc. v. Microsoft Corp.*

9 35 F.3d 1435 (9th Cir. 1994), *cert. den.*, 513 U.S. 1184, 115 S. Ct. 1176 (1995) 3

10 *Aromatique, Inc. v. Gold Seal, Inc.*

11 28 F.3d 863 (8th Cir. 1994)..... 3, 6

12 *Baltimore Orioles, Inc. v. Major League Baseball Player's Ass'n*

13 805 F.2d 663 (7th Cir. 1986)..... 13

14 *Chazen v. Centennial Bank*

15 61 Cal.App.4th 532 (1998)..... 10

16 *Conley v. Gibson*

17 355 U.S. 41 (1957) 5

18 *Denbicare U.S.A., Inc. v. Toys “R” Us, Inc.*

19 84 F.3d 1143 (9th Cir. 1996)..... 13

20 *Duggan's Funeral Service, Inc. v. Duggan's Serra Mortuary, Inc.*

21 49 U.S.P.Q.2d 1797, 1998 WL 998965 (Cal. Super. Ct. 1998), *aff'd*, 80

22 Cal.App.4th 151 (2000)..... 10

23 *Ellison v. Robertson*

24 357 F.3d 1072 (9th Cir. 2004)..... 5

25 *Emery v. Visa International Service Association*

26 95 Cal.App.4th 952 (2002)..... 2, 10, 14

27 *Entertainment Research Group, Inc. v. Genesis Creative Group, Inc.*

28 122 F.3d 1211 (9th Cir. 1997), *cert. denied*, 523 U.S. 1021, 118 S.Ct. 1302 (1998) 11

Fantasy, Inc. v. Fogerty

94 F.3d 553 (9th Cir. 1996)..... 3

Federal Deposit Ins. Corp. v. Imperial Bank

859 F.2d 101 (9th Cir. 1988)..... 10

Fleet v. CBS, Inc.

50 Cal.App.4th 1911 (1996)..... 12

Fogerty v. Fantasy, Inc.

510 U.S. 517 (1994) 3, 4, 13

TABLE OF AUTHORITIES (con't)

	<u>Page</u>
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
	5, 7
	11
	8
	7
	13, 14
	9
	7
	7
	10
	10
	10
	3, 6, 7
	6
	4, 7
	7
	7
	12

TABLE OF AUTHORITIES (con't)

Page

Traditional Cat Association, Inc. v. Gilbreath

340 F.3d 829 (9th Cir. 2003)..... 11, 14

Statutes

15 U.S.C. § 1117(a)..... 1, 3, 6

17 U.S.C. § 101 12

17 U.S.C. § 30 12

17 U.S.C. § 505 1, 3

Cal. Corp. Code §§ 16100 *et seq.*..... 8

Federal Rule of Civil Procedure 54(d)(2)..... 2

Other Authorities

3 Nimmer on Copyright § 12.04(A)(1) 6

1
2
3
4
5
6
7
8
9
10
11
12
13
14
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1 **I. INTRODUCTION**

2 Plaintiff Perfect 10, Inc. ("Perfect 10") brought an unprecedented copyright and trademark
3 infringement action against Defendant Visa International Service Association ("Visa") and other
4 defendants in this action. Defendants, however, were not accused of direct infringement, but were
5 sued merely because they supplied their normal, content-neutral credit card transaction processing
6 services to completely unrelated, independent merchants.

7 Lacking any legal or factual support, Plaintiff's action was spectacularly unsuccessful. On
8 August 6, 2004, the Court granted Defendants' first motion to dismiss with leave to amend (the "First
9 Dismissal" or the "8/6/04 Order"). In its subsequent Order dated December 3, 2004, the Court
10 dismissed the First Amended Complaint in its entirety with prejudice, after Plaintiff had failed to add
11 any new factual allegations overcoming the numerous deficiencies identified in the 8/6/04 Order.
12 (Order Granting Defendants' Motion to Dismiss First Amended Complaint (the "Final Dismissal" or
13 the "12/3/04 Order"). Indeed, the Court concluded that "Plaintiff's First Amended Complaint suffers
14 from the same infirmities as its original Complaint." (*Id.* at p. 4.)

15 Visa and the other defendants were forced to defend against Plaintiff's litigation fantasies and
16 are entitled to an award of their attorneys' fees and other expenses incurred in defending this action,
17 under the Copyright Act, 17 U.S.C. § 505 and the Lanham Act, 15 U.S.C. § 1117(a). Counsel for the
18 parties met and conferred prior to the bringing of this motion (L.R. 54-5(a)), but Plaintiff's counsel
19 refused to acknowledge Plaintiff's liability to reimburse any part of Defendants' attorneys' fees as part
20 of costs, necessitating this motion. (Mark T. Jansen Decl. ("Jansen Decl."), ¶ 10.)

21 **II. RELEVANT PROCEDURAL BACKGROUND**

22 Plaintiff filed this action January 28, 2004. Perfect 10's original complaint was unusually
23 detailed and voluminous -- nearly 500 pages with exhibits. The principal claims raised by Perfect 10
24 were its first two federal claims for alleged copyright and trademark violations.

25 Plaintiff did not allege that Visa or any other of the named defendants were themselves
26 engaged in trademark, copyright or any other legal violations. Rather, Plaintiff's theory was the
27 admittedly unsupported one (previously expressly rejected as to Visa in the context of California's
28 Unfair Competition Law in *Emery v. Visa International Service Association*, 95 Cal.App.4th 952

1 (2002)), that Visa and other institutions should have an obligation to police, and were liable as "aiders
2 and abettors" or "virtual fences" for, the copyright infringements of completely unrelated merchants
3 simply because those merchants utilize the defendants' credit transaction processing services through
4 the banks from whom the alleged infringers obtain credit. Plaintiff's counsel who brought this action
5 recognized in the press that this was a "seminal lawsuit; the first time someone has gone to the heart of
6 the financial systems" and tried to sue credit card processors for the alleged wrongs of independent
7 merchants. (Jansen Decl., ¶ 11, Ex. 5, 6/4/04 San Francisco Recorder at p. 1.) Well, not quite the first
8 time; that theory of liability previously had been expressly rejected in *Emery, supra*, and in numerous
9 published federal copyright and trademark cases holding that plaintiff's secondary liability theories
10 could not extend to financial institutions and other businesses similarly unrelated to the alleged direct
11 infringers.

12 The Court heard Defendants' motion to dismiss Plaintiff's original complaint on July 9, 2004.
13 The Court ruled from the bench that the alleged facts did not fit within any recognized theory of
14 liability and questioned whether Plaintiff could possibly allege additional material facts that would
15 support a claim for relief. (Jansen Decl., ¶ 7, Ex. 1, 7/9/04 RT at pp. 35-36.) On August 6, 2004, the
16 Court issued its Order dismissing Plaintiff's complaint, but giving Plaintiff leave to amend its
17 copyright, trademark and related state law claims if it desired. (Jansen Decl., ¶ 8, Ex. 2.)

18 On September 7, 2004, plaintiff filed a First Amended Complaint. As anticipated, Plaintiff
19 had not added any legally significant factual allegations. At the November 15, 2004 hearing on the
20 motion to dismiss, the Court questioned why Plaintiff had bothered amending as no materially new
21 facts had been added. (11/15/04 RT; Jansen Decl., ¶ 9.) The Court again ruled from the bench,
22 dismissing the Complaint with prejudice (*id.* at ¶ 9), and followed that with a written opinion and
23 decision on December 3, 2004. Judgment dismissing this action with prejudice was entered on
24 December 3, 2004.

25 **III. ARGUMENT**

26 **A. Standards Applicable To An Award Of Defense Attorneys' Fees**

27 Federal Rule of Civil Procedure 54(d)(2) and Civil Local Rule 54-5 provide for an award of
28 attorneys' fees upon making of a timely motion for the requested award. Visa and the other

1 defendants here are entitled to an award of all attorneys' fees, not just costs, incurred in defending the
2 copyright law claims against them. 17 U.S.C. § 505; *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994);
3 *Fantasy, Inc. v. Fogerty*, 94 F.3d 553 (9th Cir. 1996) (affirming \$1.3 million award to defendant on
4 remand). In addition, an award of attorneys' fees is to be made to a prevailing trademark/Lanham Act
5 defendant, if the Plaintiff's case lacks merit, is "groundless," "unreasonable," or otherwise
6 "exceptional." 15 U.S.C. § 1117(a); *Aromatique, Inc. v. Gold Seal, Inc.*, 28 F.3d 863, 867 (8th Cir.
7 1994); *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant*, 771 F.2d 521 (D.C. Cir. 1985).
8 Certainly in this case, the trademark claims are groundless and therefore "exceptional" as the Court
9 already ruled on August 6, 2004, that Perfect 10 was "pleading to the wrong legal standard" (8/6/04
10 Order at pp. 9-10), and Perfect 10's First Amended Complaint, filed September 7, 2004, did not in any
11 way alter or correct the clearly deficient trademark claim allegations.

12 Defendants also are entitled to fees incurred defending the tag along state law claims because
13 of the substantial overlap between those claims and the copyright and trademark claims.

14 **B. Visa is Entitled To Its Expenses Incurred Defending Plaintiff's Copyright Claim**

15 The prevailing party in a copyright infringement case is entitled to an award of its reasonable
16 attorneys' fees and costs under the Copyright Act. 17 U.S.C. § 505 provides that "the court in its
17 discretion may allow the recovery of full costs by or against any party...[and] the court may also
18 award a reasonable attorneys' fee to the prevailing party as part of the costs." Prevailing defendants
19 are treated the same as prevailing plaintiffs. "[A] successful defense of a copyright infringement
20 action may further the policies of the Copyright Act every bit as much as a successful prosecution of
21 an infringement claim by the holder of a copyright." *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527, 114
22 S. Ct. 1023, 1030 (1994). In *Apple Computer Inc. v. Microsoft Corp.*, 35 F.3d 1435, 1448 (9th Cir.
23 1994), *cert. den.*, 513 U.S. 1184, 115 S. Ct. 1176 (1995), the Ninth Circuit recognized that, after
24 *Fogerty*, "the district court now has greater discretion to award attorneys' fees to prevailing
25 defendants." Visa, as a prevailing defendant, is entitled to its reasonable attorneys' fees incurred.

26 When making fee awards to a prevailing party, there are several nonexclusive factors that
27 courts should consider. As the Supreme Court explained in *Fogerty*:

28 These factors include 'frivolousness, motivation, objective

1 unreasonable (both in the factual and in the legal components of the
2 case) and the need in particular circumstances to advance considerations
3 of compensation and deterrence.' We agree that such factors may be
4 used to guide courts' discretion, so long as such factors are faithful to the
5 purposes of the Copyright Act and are applied to prevailing plaintiffs
6 and defendant in an evenhanded manner.

7 *Fogerty*, 510 U.S. at 534 n.19 (citation omitted). Undeniably, when the forgoing factors are
8 considered, Visa's defense of this action furthered the purposes of the Copyright Act by preventing an
9 unsound expansion of copyright law by Plaintiff's objectively unreasonable claims.

10 Defendants unquestionably furthered the purposes of the Copyright Act through their
11 successful defense of Plaintiff's desire to improperly expand the scope of copyright infringement.
12 Certainly, the public good is served by Defendants' ability to enable commerce through its payment
13 systems without the risk of a perverse application of contributory and vicarious liability for the
14 uncontrolled acts of others. Unfounded imposition of liability as sought by Plaintiff would have
15 chilled commerce and unduly stretched the scope of copyright law. Visa's defense also furthered the
16 goals of the Copyright Act by securing a ruling which better clarifies the limits of contributory and
17 vicarious copyright liability. "Because copyright law ultimately serves the purpose of enriching the
18 general public through access to creative works, it is peculiarly important that the boundaries of
19 copyright law be demarcated as clearly as possible." *Fogerty*, 510 U.S. at 527. *See also, Sony Corp.*
20 *of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (rights under the Copyright Act
21 are limited in nature and must ultimately serve the public good). Here, Plaintiff's misapplication of
22 third party liability would have significantly damaged the public good by severely restricting and
23 slowing not just commerce itself, but also the public's access to, and ability to purchase, creative
24 works in general - not just those allegedly owned by Plaintiff.

25 The social importance of Visa's defense is obvious, not just from Plaintiff's own public
26 admissions that the case tested the outer limits of copyright liability (*e.g.*, Jansen Decl., ¶ 13, Ex. 5),
27 but from the intense interest the Court's decisions have generated in the relevant legal media. Indeed,
28 there has been substantial media coverage not just locally but in national and international
publications, both legal and lay. (*See* Jansen Decl., ¶¶ 12-14, Exs. 4, 5, and 6.)

Further, Plaintiff's claims were objectively unreasonable. The weakness of Plaintiff's claims
was demonstrated by the fact that the Court twice dismissed all of Plaintiff's claims pursuant to

1 Federal Rule of Civil Procedure 12(b)(6). Indeed, the Court dismissed all plaintiff's claims with
2 prejudice notwithstanding its recognition that Rule 12(b)(6) motions are disfavored and rarely granted.
3 (12/3/04 Order at p.3; *see also* 8/6/04 Order at p. 3.) Despite this rarity, the Court ordered Plaintiff's
4 claims dismissed with prejudice and noted that "Plaintiff has failed to plead that Defendants actually
5 aided and abetted the Stolen Content Websites in their illicit activities in any way." (Final Dismissal
6 at p. 11 (emphasis added).) To survive a Rule 12(b)(6) Motion to Dismiss, Plaintiff need only have
7 alleged facts in support of its claims that would entitle it to relief. *Conley v. Gibson*, 355 U.S. 41, 45-
8 46 (1957). Clearly, after two tries, Plaintiff was unable to do so. If Plaintiff had conducted even a
9 cursory and objectively reasonable investigation of the facts and law, it would have concluded that this
10 case was without merit. Further, as discussed *supra*, when given the opportunity by the Court to
11 amend the Complaint to aver the necessary facts to support its claims, Plaintiff, in its First Amended
12 Complaint, once again failed to adduce sufficient facts -- despite having had over seven months to
13 conduct additional investigation and research since the filing of the original Complaint.

14 The objective unreasonableness of Plaintiff's contributory copyright infringement case was
15 profound. To allege that Visa was liable for such infringement, Plaintiff needed to show that Visa
16 materially contributed to the infringing activity. (8/6/04 Order at p. 4); *Ellison v. Robertson*, 357 F.3d
17 1072, 1076 (9th Cir. 2004); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).
18 Plaintiff could not meet this test. As the Court explained, "There is no reason to believe that the
19 allegedly infringing websites could not continue to infringe and operate effectively if Visa and
20 MasterCard were to terminate their financial services." (8/6/04 Order at p. 6); "[T]here is no factual
21 basis for the allegation that they [defendants] materially contribute to the alleged *infringing activities*
22 of the websites." (*Id.*); and "Plaintiff's would have this Court hold that mere economic influence over a
23 copyright infringer constitutes contributory copyright infringement. To so hold would set a dangerous
24 precedent." (12/3/04 Order at p. 5.) Clearly, Plaintiff's desire to attribute contributory liability to Visa
25 was unreasonable and without basis in law or fact.

26 Plaintiff's theory of vicarious copyright infringement was even more objectively unreasonable.
27 To support this cause of action, Plaintiff needed to show that Visa had the right and ability to control
28 the infringing activity. (8/6/04 Order at p. 7); *Ellison*, at 1078; *Fonovisa*, at 262; *Adobe Systems Inc.*

1 v. *Canus Productions, Inc.*, 173 F.Supp.2d 1044, 1049 (C.D. Cal. 2001); 3 Nimmer on Copyright §
2 12.04(A)(1). Once again, Plaintiff failed from the beginning to meet this burden, even under the
3 lenient Rule 12(b)(6) standard: "Defendants' ability to rescind their services does not indicate control
4 over the websites' alleged infringing actions." (8/6/04 Order at p. 7.); "Plaintiff has not pled any facts
5 that indicate that the right or ability to control the alleged *infringing conduct* of the websites is
6 present." (*Id.* at p. 8); and "Under the facts alleged in Plaintiff's First Amended Complaint, Defendants
7 simply do not 'control' the infringing activity at issue." (12/3/04 Order at p. 7.). Plaintiff twice tried
8 and twice failed to aver facts necessary to support its allegation that Visa had the right and ability to
9 control the infringing activity. Mere economic *influence* does not equate to *control*. (*Id.* at pp. 6-7.)
10 An objective and reasonable evaluation by Plaintiff and its counsel would have revealed these obvious
11 flaws in their legal and factual argument.

12 Defendant Visa has plainly met the burden under the Copyright Act of showing that it is
13 entitled to recover its reasonable attorneys' fees incurred in defending the infirm copyright claims
14 advanced by Plaintiff.

15 **C. Defense Fees Should Be Awarded Since Plaintiff's Trademark Case Was**
16 **"Exceptional"**

17 Lanham Act § 35 (a) provides: "The court in exceptional cases may award reasonable attorney
18 fees to the prevailing party" in any action alleging either "violation of any right of the registration of a
19 mark . . . or a violation under section 1125 (a) of this title [for unfair competition]." 15 U.S.C. §
20 1117(a). If a defendant is the prevailing party in a trademark case that is "groundless, unreasonable,
21 vexatious or pursued in bad faith," the case is considered an exceptional one entitling the defendant to
22 its attorney fees pursuant to 15 U. S. C. § 1117(a). It is sufficient if the case is groundless or
23 unreasonable; a showing of "bad faith" or vexatiousness is not required to find the case "exceptional."
24 *Aromatique, Inc. v. Gold Seal, Inc.*, 28 F.3d 863, 877 (8th Cir. 1994) (emphasis added); *Scotch Whisky*
25 *Ass'n v. Majestic Distilling Co.*, 958 F.2d 594, 595- 600 (4th Cir. 1992), *cert. denied*, 506 U.S. 862
26 (1992); *Noxell Corp. v. Firehouse No.1 Bar-B-Que Restaurant*, 771 F.2d 521, 526-527 (D.C. Cir.

1 1985) (Judge Ginsburg) (plaintiff' s "bad faith" not required to establish an "exceptional" case entitling
2 successful defendant to fee award).¹ Thus, Visa is entitled to an award of fees for its defense since
3 Perfect 10's trademark claims certainly were, as this Court already has determined, "groundless" and
4 "unreasonable." A case is considered "exceptional" if it is "uncommon, not run-of-the mill." *Noxell* at
5 526.

6 This case is clearly not a common or "run-of-the-mill" type of trademark case. Rather the case
7 is without either factual or legal support as this Court has found -- twice. Not only was this trademark
8 case highly uncommon because through it Perfect 10 sought to hold defendant credit transaction
9 processing companies liable for alleged infringements by unrelated, largely unidentified allegedly
10 infringing merchants, but also because it was pled with complete disregard for the applicable legal
11 standards for vicarious and contributory trademark liability. As the Court recognized in its 8/6/04
12 Order dismissing the original Complaint, Perfect 10 and its counsel completely ignored the binding
13 Supreme Court and Ninth Circuit precedent establishing that (1) liability for alleged secondary
14 infringers is even narrower under trademark law than under copyright law; and (2) contributory
15 trademark liability can result only if the defendant supplies goods or services that are used directly in
16 the trademark infringing activity. 8/6/04 Order at p. 9; *see Sony Corp. v. Universal City Studios, Inc.*,
17 464 U.S. 417, 439 (1984); *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 854-855
18 (1982); *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983 (9th Cir. 1999);
19 *Fonovisa, Inc. v. Cherry Auction*, 76 F.3d 259, 264 (9th Cir. 1996).

20 As this Court recognized in dismissing the original Complaint, Plaintiff had made no effort
21 whatsoever to plead any facts directed to the appropriate legal standard for trademark claims:

22 Plaintiff has pled no facts indicating that Defendants induced the
23 allegedly infringing websites to use Plaintiff's marks. In fact, the
24 language of the complaint indicates that Plaintiff believed the standard
for contributory trademark infringement to be the same as that for

25 ¹ In *Noxell*, the Federal Circuit affirmed an award of attorneys' fees where the plaintiff had
26 improperly sued a small, San Francisco-based barbecue restaurant in an improper forum, Washington,
27 D.C. *See also, Hartman v. Hallmark Cards, Inc.*, 833 F.2d 117, 123 (8th Cir. 1987); *Standard Terry*
Mills, Inc. v. Shen Manuf. Co., 803 F.2d 778, 782 (3d Cir. 1986); *Taj Mahal Enterprises, Ltd. v.*
Trump, 745 F.Supp. 240, 253 (D.N.J. 1990).

1 contributory copyright infringement. (Compl. ¶ 98 ("Defendants are
2 knowingly inducing, causing, and materially contributing to the conduct
3 of the Stolen Content Websites").) As the rule stated above indicates,
4 however, this is not the case. Although the complaint contains the
5 allegation that Defendants "are knowingly inducing" the alleged
6 infringing conduct, Id., there are no facts presented in the complaint that
7 support such an allegation.

8 Likewise, Plaintiff has not pled facts indicating that Defendants supplied
9 a product to the websites, knowing that the product would be used to
10 infringe Plaintiff's mark. The only service Defendants supply is the
11 ability to accept certain credit cards as payment, and this service has not
12 apparent direct link to the alleged infringing activities. As a result,
13 Plaintiff has not adequately pled a claim for contributory trademark
14 infringement.

15 8/6/04 Order at 9 (emphasis added). This Court put the fundamental problem with Plaintiff's
16 trademark claims even more bluntly in dismissing Perfect 10's vicarious trademark infringement
17 theory, explaining that, "[o]nce again," Perfect 10 and its counsel were:

18 "pleading to the wrong legal standard, including terms like 'control the
19 infringing content' and 'direct financial benefit' (Compl. ¶ 98), which are
20 important when considering vicarious copyright infringement but have
21 no bearing on the existence of vicarious trademark infringement."

22 *Id.* at p. 10 (emphasis added).

23 In this regard, it should be stressed that any competent lawyer who presumes to take on
24 unprecedented intellectual property litigation such as this should have done the basic legal research
25 and therefore know that vicarious trademark liability cannot be supported except by facts establishing
26 that Visa and the unidentified Stolen Content Websites had "an apparent or actual partnership, have
27 authority to bind one another in transactions with third parties or exercise joint ownership or control
28 over the infringing product." *Id.* at p.9; *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*,
955 F.2d 1143, 1150 (7th Cir. 1992) (emphasis added). Yet Plaintiff and its counsel, while finally
recognizing that facts equivalent to "apparent or actual partnership" were required (*see* Plaintiff's Opp.
to Motion to Dismiss First Amended Complaint, filed 10/18/04 at p.19), never pled any facts coming
close to this standard.²

² 12/3/04 Order at pp. 6-7. Under the Uniform Partnership Act, a partnership or joint venture is
established where two or more persons carry on as coowners of a business for profit. *See, e.g.*, Cal.
Corp. Code §§ 16100 *et seq.* The actual sharing of profits is prima facie evidence, which is to be

Continued on the next page

1 Equally if not more significant is the fact that Plaintiff simply re-pled the exact same
2 trademark infringement theories in its First Amended Complaint, even after the Court clearly
3 enunciated to Plaintiff the appropriate legal standard. Astoundingly, as this Court recognized (12/3/04
4 Order at p. 4), Plaintiff made absolutely no additions or changes at all to its trademark claim in
5 amending the Complaint. *See also* "redlined" or "compare-write" version of First Amended
6 Complaint, at pp. 33-36 (attached as Exhibit A to MasterCard's Brief in Support of Motion to Dismiss
7 First Amended Complaint, filed September 29, 2004).³

8 Finally, Plaintiff's counsel on numerous occasions and in numerous contexts acknowledged
9 that this case lacked legal support. Even before the Court heard Defendants' motion to dismiss the
10 Original Complaint, Plaintiff's counsel Howard King admitted to the press that this action was "a
11 seminal lawsuit." (Jansen Decl., Ex. 5, San Francisco Recorder, June 4, 2004, p. 1.) Both in that
12 reported press interview and at the July 9, 2004 hearing, Plaintiff's counsel relied on a clearly and
13 easily distinguishable case, *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001)
14 as Plaintiff's "best" support. (*Id.* at p. 2, *see also* Jansen Decl., ¶ 7, Ex. 1, 7/9/04 RT at pp. 7-9, 14, 24,
15 31-32.) After this Court's first ruling, Plaintiff's counsel acknowledged to the press that he "didn't see
16 a lot of rays of hope" in the Court's 8/6/04 Order, and knew "knew it [the viability of Plaintiff's
17 claims] would have to be decided by a higher court." (Jansen Decl., Ex. 4, San Francisco Recorder
18 8/16/04, p. 1.) Notwithstanding his recognition that he could not, in good faith, plead new facts
19 meeting the legal standard enunciated by this Court (and affirmed as the correct standard by the Ninth

20 _____
21 Continued from the previous page

22 considered when determining if a partnership exists. *See, e.g., Holmes v. Lerner*, 74 Cal.App.4th 442,
23 457 (1st Dist. 1999).

24 ³ Further supporting a finding that Plaintiff's trademark claims are "baseless" and therefore
25 "exceptional" is the fact that Plaintiff utterly failed, in both its Original and First Amended Complaint,
26 to ever identify, specifically, even one third party that had used without permission, or infringed upon,
27 any Perfect 10 trademark. Perfect 10 only generally and superficially averred that "Photographs
28 containing a Perfect 10 copyright notice and/or a caption 'Perfect 10', 'P-10' or similar designation
have been posted on the Stolen Content Websites." (Orig. Complaint, ¶ 97, FAC ¶ 109.) These vague
allegations made it impossible for the Court, Visa or any other defendant to actually investigate
Plaintiff's allegations and determine what, if any, relationship any defendant actually had with any one
of thousands of unidentified websites that were alluded to, generally, as "Stolen Content Websites."

1 Circuit Court of Appeals thereafter in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d
 2 1154 (9th Cir. August 19, 2004), Plaintiff's counsel nonetheless filed a First Amended Complaint.
 3 When questioned about this by the Court, counsel quite candidly admitted that he had done so
 4 notwithstanding his better legal judgment, merely to accommodate the desires of his lay client! (*See*
 5 11/15/04 RT; Jansen Decl., ¶ 9.)⁴

6 Plaintiff and its counsel persisted in prosecuting this baseless claim despite numerous requests
 7 that they drop the action, and being fully aware of not just the complete lack of authority supporting
 8 their claims, but a multitude of federal and state decisions, such as *Emery v. Visa International Service*
 9 *Association*, 95 Cal.App.4th 952 (2002) and *Mid-Cal Nat'l Bank v. Federal Reserve Bank*, 590 F.2d
 10 761, 763 (9th Cir. 1979), clearly holding that banks, credit card transaction processing services like
 11 Visa and other financial institutions, cannot be liable to third parties for the civil misconduct of their
 12 depositors, borrowers, or other customers.⁵ (Jansen Decl., ¶ 11.) Plaintiff's case was not just factually
 13 baseless and legally unsupported but Plaintiff knew there was a mass of legal precedent forbidding its
 14 claims from proceeding.

15 **IV. THE COPYRIGHT AND TRADEMARK CLAIMS DOMINATED THE ACTION AND**
 16 **OVERLAPPED THE STATE LAW CLAIMS ASSERTED**

17 Because there is substantial overlap between the copyright and trademark claims on one hand
 18 and the state law claims asserted by Perfect 10 on the other, Defendants are entitled to be compensated
 19 for all attorneys fees incurred, on all of the claims. A party that is entitled to attorneys' fees as a
 20 prevailing party on a particular copyright claim can recover attorneys' fees for "related claims."
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22 ⁴ The award of attorney fees may be entered against both the plaintiff and its responsible attorney.
 23 *Motown Productions, Inc. v. CaComm, Inc.*, 849 F.2d 781, 786 (2d Cir. 1988); *Duggan's Funeral*
 24 *Service, Inc. v. Duggan's Serra Mortuary, Inc.*, 49 U.S.P.Q.2d 1797, 1998 WL 998965 (Cal. Super.
 Ct. 1998), *aff'd*, 80 Cal.App.4th 151 (2000) (trademark defense fees in excess of \$350,000 awarded
 against both plaintiff and plaintiff's counsel, jointly).

25 ⁵ *See also, Federal Deposit Ins. Corp. v. Imperial Bank*, 859 F.2d 101, 104 (9th Cir. 1988) (no duty
 26 owed because no special relationship); *Emery*, 95 Cal.App.4th at 962 (Visa not responsible for
 27 monitoring or policing merchants authorized to accept Visa payment cards); *Chazen v. Centennial*
Bank, 61 Cal.App.4th 532, 537-38 (1998) (no duty to police or supervise depositors' accounts or
 account activities).

1 *Entertainment Research Group, Inc. v. Genesis Creative Group, Inc.*, 122 F.3d 1211, 1230 (9th Cir.
2 1997), *cert. denied*, 523 U.S. 1021, 140 L. Ed. 2d 468, 118 S.Ct. 1302 (1998). Indeed, for copyright
3 cases, the first step in the calculation of a reasonable attorneys' fee is to decide if the copyright and
4 non-copyright claims are related. *Traditional Cat Association, Inc. v. Gilbreath*, 340 F.3d 829, 833
5 (9th Cir. 2003). Similarly, a prevailing party can recover attorneys' fees for non-trademark claims that
6 are intertwined with trademark claims. *See, Gracie v. Gracie*, 217 F.3d 1060, 1069 (9th Cir. 2000).

7 Here, the trademark and copyright claims quite clearly were closely "intertwined" and
8 "related" to plaintiff's state law claims. The only conclusion that can be drawn from the record is that
9 Plaintiff's "primary" claims were its contributory and vicarious copyright and trademark claims.
10 Indeed, this Court noted in its Final Dismissal that "Plaintiff's arguments for trademark infringement
11 parallel those for copyright infringement." (Final Dismissal at p. 7.)(citation omitted). The court went
12 on to explain there was a complete overlap with the state law claims, as "Plaintiff supports its
13 remaining claims [violation of right of publicity, unfair competition, and false and misleading
14 advertising] by reiterating its theme. . ." (*Id.* at p. 10.)

15 The parties devoted the vast bulk of their resources to litigating these primary claims. For
16 example, in opposing Defendants' first motion to dismiss, Plaintiff devoted the first eleven pages of
17 legal argument in its opposition brief to the copyright and trademark claims, two pages to the state's
18 right of publicity claims; six pages to the California state law Unfair Competition and False
19 Advertising claims, and eight pages to the libel and tortious interference claims. Argument at the
20 hearing was devoted, virtually entirely, to arguing the copyright claims. (*See* Jansen Decl., ¶ 7, Ex. 1,
21 7/9/04 RT.) Moreover, the Court devoted the bulk of its written decision (10 of 14 pages) to Plaintiff's
22 copyright and trademark claims. (First Dismissal at pp. 1-10.)

23 Defending against the First Amended Complaint, the parties and the Court similarly devoted
24 well in excess of 90% of their efforts, objectively measured, to the copyright and trademark claims.
25 Defendants filed two opening briefs and a joint reply, running a cumulative 39 pages. Of those, only
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1 three total pages addressed Plaintiff's claims other than the copyright and trademark claims.⁶ Perfect
2 10's Opposition Brief totaled 21 pages but only one page addressed Plaintiff's state law claims.⁷ At
3 the hearing on November 15, 2004, the only claims discussed were Plaintiff's copyright claims. (*See*
4 11/15/04 RT; Jansen Decl., ¶ 9.) Thus, Plaintiff essentially conceded throughout that the viability of
5 its state law claims -- and its entire case -- hinged on its Copyright Act claims. Not only did all parties
6 recognize that the copyright claim was dispositive of Plaintiff's lawsuit, but the same common facts
7 were alleged and relied upon in support of all the claims as pled. This was further recognized in the
8 Court's Final Dismissal where only one page was devoted to the state law claims. (12/3/04 Order at
9 pp. 10-11.)

10 Indeed, Plaintiff's copyright and trademark claims substantially eclipsed and overlapped its
11 state law claims. The state law claims were entirely subsumed by the facts and law supporting these
12 primary claims. For example, because Perfect 10's claims for violation of the right of publicity were
13 based entirely upon the alleged unpermitted republication of its model's photographs (*see, e.g., FAC*
14 ¶¶ 85-91), the right of publicity claim was entirely preempted by the Copyright Act, 17 U.S.C. § 301.
15 *See, e.g., Toney v. L'Oreal U.S.A. Inc.*, 384 F.3d 486, 489-90 (7th Cir. 2004) ("photographs of plaintiff
16 [model's] likeness are the subject matter of copyright," being "pictorial works" under 17 U.S.C. § 101;
17 the model's claims for unauthorized reproduction of the photographs thus were preempted under the
18 Copyright Act); *Fleet v. CBS, Inc.*, 50 Cal.App.4th 1911, 1920-21 (1996) ("Appellants may choose to
19 call their claims misappropriation of right to publicity, but if all they are seeking is to prevent a party
20 from exhibiting a copyrighted work they are making a claim 'equivalent to an exclusive right within
21 the general scope of copyright.'"); *Baltimore Orioles, Inc. v. Major League Baseball Player's Ass'n*,

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24 ⁶ Defendant Visa International Service Association's Memorandum of P&A ISO of Motion to Dismiss
25 Plaintiff's First Amended Complaint (Docket No. 42, filed 9/24/04); Defendants MasterCard
26 International Incorporated, First Data Corp., CardService International, Inc., and Humboldt Bank ISO
of Motion to Dismiss First Amended Complaint (Docket No. 44, filed 9/24/04); and Consolidated
Reply of All Defendants on Motions to Dismiss Amended Complaint (Docket No. 49, filed 11/01/04).

27 ⁷ Plaintiff's Combined Opposition to Motions to Dismiss; Memorandum of P&A (Docket No. 48, filed
28 October 18, 2004).

1 805 F.2d 663, 678-79 (7th Cir. 1986) (finding Copyright Act preemption in that both the right of
2 publicity and "[t]he purpose of federal copyright protection is to benefit the public by encouraging
3 works in which it is interested"). As the Plaintiff's right of publicity claim was entirely preempted by
4 the Copyright Act, the relatedness of this claim is obvious.

5 Further, in its Final Dismissal, the Court recognized that:

6 Plaintiff supports its remaining claims [violation of right of publicity,
7 unfair competition, and false and misleading advertising] by **reiterating**
8 **its theme:** Defendants' contracts with the Stolen Content Websites,
9 Defendants' internal rules and regulations, and Defendants' economic
influence over the Stolen Content Websites render Defendants complicit
in the Stolen Content Websites' illicit activities.

10 12/2/03 Order at p. 10 (emphasis added). As the Court recognized, the alleged facts, themes and
11 theories presented by Plaintiff to support its copyright and trademark claims were identical to those it
12 proffered in support of its related state law claims. In such cases, the Supreme Court has explained:

13 In other cases the plaintiff's claims for relief will involve **a common**
14 **core of facts** or will be **based on related legal theories. Much of**
15 **counsel's time will be devoted generally to the litigation as a whole,**
16 **making it difficult to divide the hours expended on a claim-by-claim**
17 **basis.** Such a lawsuit cannot be viewed as a series of discrete claims.
Instead the district court should focus on the significance of the overall
relief [sought] by the plaintiff in relation to the hours reasonably
expended on the litigation.

18 *Hensley v. Eckerhart*, 461 U.S. 424, 435, 76 L. Ed. 2d 40, 103 S. Ct. 1933 (1983) (emphasis added).

19 In applying *Hensley* to the award of defense fees and costs, the Court in *Fogerty* stated that

20 "[p]revailing plaintiffs and prevailing defendants are to be treated alike." *Fogerty*, 510 U.S. at 534.

21 Plaintiff's secondary state law claims were not only based on the same common core of facts, but also
22 employed identical and untenable theory of contributory and vicarious liability as the primary
23 copyright and trademark claims.

24 Additionally, the Unfair Business Act claims were virtually governed by the Lanham Act
25 under *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1152-53 (9th Cir. 1996), as

26 Defendants explained in their first brief and in their reply in support of Defendants' Motion to Dismiss
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1 the Original Complaint.⁸ While Defendants' briefs raised this well-founded preemption issue, the
2 Court did not need to reach it, since *Emery v. Visa, supra*, clearly prohibited Plaintiff from proceeding
3 with those claims under a vicarious liability theory. Nonetheless, it is apparent from the record that
4 Plaintiff's Unfair Business Act claims were undoubtedly intertwined with, and related to, its faulty
5 Lanham Act claims.

6 For the foregoing reasons and as the Court already has determined and ruled, Plaintiff's
7 secondary state law claims are obviously related to, intertwined with, and dependant upon the same
8 facts as Plaintiff's copyright and trademark claims. For that reason, Defendants should be awarded all
9 fees incurred in defense of the entire case, and all claims asserted.

10 **V. THE ATTORNEYS' FEES INCURRED BY VISA WERE REASONABLE**

11 Once the Court determines that an award of attorneys' fees is proper, it must award the
12 reasonable attorneys' fees incurred by the prevailing party. *Traditional Cat Association, Inc. v.*
13 *Gilbreath*, 340 F.3d 829, 832 (9th Cir. 2003)("[D]istrict courts are charged with two tasks: first,
14 deciding whether an award of attorneys' fees is appropriate, and second, calculating the amount of
15 fees to be awarded.")(internal citations omitted). As discussed *supra*, these attorneys' fees should
16 include those attributable to all related and intertwined claims.

17 Indeed, "[t]he most useful starting point for determining the amount of a reasonable fee is the
18 number of hours reasonably expended on the litigation multiplied by a reasonable hourly rate. This
19 calculation provides an objective basis on which to make an initial estimate of the value of a lawyer's
20 services." *Hensley*, 461 U.S. at 433. Given the nature of the claims and potential enormous exposure
21 to Visa and the Visa system, as well as Plaintiff's tortured interpretation of the controlling intellectual
22 property and unfair practices law, Visa was forced to engage specialized counsel to defend itself in
23 this action. Visa's counsel reasonably spent substantial time investigating the detailed and lengthy
24 factual allegations, and conducting thorough legal research. Visa's counsel wrote the first draft of the

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27 ⁸ All Defendants' Consolidated Memorandum of Points and Authorities in Support of Motion to
Dismiss at p. 24; Reply Memorandum in Support of Defendants' Motion to Dismiss at p. 22.

1 copyright, trademark, and unfair competition sections of Defendants' original consolidated brief, and
2 also conducted substantial legal research, and drafted argument on the libel and tortuous interference
3 claims. (Jansen Decl., ¶ 5.) As a result, Visa incurred \$299,603.16 in reasonable attorney fees and
4 costs since January 30, 2004 in defending this action. (Jansen Decl., ¶ 15, Ex. 7.) This sum includes
5 \$294,617.00 in attorney fees and \$4,986.16 in costs. (*Id.*) Because the work done was required by the
6 factually intense nature of Plaintiff's Complaint, by the unprecedented issues of law presented, by
7 Plaintiff's attempt to expand the legal boundaries of copyright and trademark liability, and because
8 Plaintiff insisted on engaging in a futile attempt to replead, the total defense expenses incurred by Visa
9 were reasonable under the circumstances.

10 The expenses and attorneys' fees incurred were entirely reasonable -- especially considering
11 the extraordinary nature of Plaintiff's claims. Further, counsel's hourly rate fees are the usual and
12 customary rates charged for handling intellectual property litigation matters, and are the rates normally
13 charged to the law firm's clients. (Jansen Decl., ¶ 14, Ex. 9.)

14 Visa accordingly requests an award of all of its attorneys' fees and costs incurred.

15 **VI. CONCLUSION**

16 For the reasons set forth above and in both of this Court's Orders granting Defendants' Motions
17 to Dismiss, Visa is entitled to attorneys' fees under the Copyright Act, this case is exceptional under
18 the Lanham Act, all of Plaintiff's claims are related and intertwined, and an award of Visa's attorneys'
19 fees and costs in the total amount of \$299,603.16 is respectfully requested.

20 DATED: December 15, 2004

Respectfully submitted,

TOWNSEND AND TOWNSEND AND CREW LLP

21
22
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27 60362195 v1

PROOF OF SERVICE

I, Linda M. Tan, declare: I am employed in the City and County of San Francisco, California in the office of a member of the bar of this court at whose direction this service was made. I am over the age of eighteen and not a party to this action. My business address is Townsend and Townsend and Crew LLP, Two Embarcadero Center, Eighth Floor, San Francisco, California, 94111.

On December 15, 2004, I served the following documents exactly entitled: **DEFENDANT VISA INTERNATIONAL SERVICE ASSOCIATION'S MOTION FOR AWARD OF ATTORNEYS' FEES** on the interested parties in this action by:

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ELECTRONIC TRANSMISSION: I caused said document to be sent by electronic transmission to the e-mail address indicated for the party(ies) listed above. The transmitting terminal address is _____@townsend.com.

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ELECTRONIC TRANSMISSION: I declare that a copy of said document(s) was filed electronically on December 15, 2004. Notice of this filing will be sent to all parties by operation of the Court's electronic filing system.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct, and that this declaration was executed on December 15, 2004, at San Francisco, California.

/s/
Linda M. Tan

60362195 v1