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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA - SAN FRANCISCO DIVISION

PERFECT 10, INC., a California corporation,,

Plaintiff,

vs.

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

Defendants.

CASE NO. C 04-00371 JW (PVT)
[Assigned for all purposes to Judge James Ware]

Action Commenced: January 28, 2004

PLAINTIFF'S COMBINED OPPOSITION TO DEFENDANTS' MOTIONS FOR ATTORNEYS' FEES; MEMORANDUM OF POINTS AND AUTHORITIES

Date: January 31, 2005
Time: 9:00 a.m.
Ctrm: 8

Plaintiff Perfect 10, Inc. ("Plaintiff") respectfully submits the following memorandum of points and authorities in support of its combined opposition to: (a) Defendant Visa International Service Association's ("Visa") Motion for Award of Attorneys' Fees and Costs; and (b) the Motion for Award of Attorney's Fees of Defendants MasterCard International Incorporated ("MasterCard") and First Data Corp., Cardservice International, Inc., and Humboldt Bank (collectively,"First Data").

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

Defendants request an astonishing $731,816.86 in attorneys' fees and costs in a case that never progressed past the initial pleading stage, involved no discovery, and entailed only two, largely similar motions to dismiss under Rule 12(b)(6). Defendants' fee requests are beyond the pale under any standards. The exorbitant fees Defendants seek can only be viewed as an improper attempt to penalize Plaintiff for its legitimate efforts, reasonably and in good faith. to protect its intellectual property rights against admitted rampant infringement by Internet merchants who rely upon Defendants' payment processing services in order to carry out their infringing conduct.

Not only is the amount egregious, but the request for fees itself lacks merit. Plaintiff did not act in bad faith or assert frivolous claims, and hence the usual factors that might mitigate in favor of a fee award are not present. To the contrary, the copyright and trademark issues at the heart of this case are novel, and the law is unsettled. One of the leading cases cited in this Court's ruling and discussed in the parties' arguments, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004), *cert. granted*, 2004 WL 2289054, now is on appeal to the Supreme Court.[1] The legal issues here relating to the parameters of contributory

[1] *Grokster* is discussed in Visa's Memorandum of Points and Authorities in Support of Motion to

infringement and vicarious liability may well change. New appellate precedent may alter the legal landscape before Plaintiff's appeal of this Court's ruling is decided. The Ninth Circuit also may come to a different conclusion on these issues than this Court did. As the Court noted, this case presents a "fascinating issue." [Jansen Decl, Exh. A (Transcript of July 9, 2004, hearing), 35:20-21.]

Even though it may have lost this round, Plaintiff's claims are reasonable and in good faith. There is no dispute that the infringing merchants ("Stolen Content Websites") rely heavily upon Defendants' credit card services in order to carry out their unlawful conduct and have infringed and continue to infringe Plaintiff's copyrights. There is no dispute that Plaintiff has suffered and continues to suffer damage as a result of that infringement, and that prosecution of claims against the Stolen Content Websites is practically impossible given their "virtual existence" and location overseas in many cases. It is undisputed that Defendants have refused to exercise their contractual rights to halt the infringing conduct after being given explicit notice of infringing sites by Plaintiff. The only issue is whether Defendants' involvement in the ongoing infringement is sufficient to expose them to liability under the Copyright and Lanham Acts. Plaintiff contends that it is, relying on *Grokster* and other authorities. The Court disagreed. The final resolution will rest with a higher court, and possibly the Supreme Court itself. Plaintiff had a reasonable legal and factual basis to pursue its claims against the credit card companies that made the admitted infringements possible and had the express contractual right to supervise and control that infringing conduct. Plaintiff's pursuit of those claims in the face of undisputed infringement furthers the primary purpose of the Copyright Act. There is no basis for the Court to award attorneys' fees.

Dismiss First Amended Complaint, at 5-7, 9 fn. 4, 11, MasterCard/First Data's Memorandum of Points and Authorities in Support of Motion to Dismiss First Amended Complaint, at 6, 9, Plaintiff's Combined Opposition to Motions to Dismiss, at 12-14, 17, and in the Court's Order Granting Defendants' Motion to Dismiss the First Amended Complaint, at 6-7.

Moreover, even if the Court is inclined to award fees, the nearly $750,000 sought by Defendants is plainly absurd. The legal issues -- at least according to Defendants –supposedly were frivolous, and Defendants' lawyers purport to be experts in this field. Surely, Defendants could have analyzed the complaint and drafted and argued their two motions to dismiss for a fraction of the fees claimed. Defendants fail to submit any detailed timesheets to support their excessive fee award and instead ask this Court to accept at face value their conclusory attorney declarations, which fail to explain how so much was spent on this case. Defendants have failed to make the requisite showing for the exorbitant fees they claim.

The Court should deny the Motion in its entirety or, at most, should award Defendants only a fraction of the excessive fees they claim to have incurred.

II. ARGUMENT: DEFENDANTS ARE NOT ENTITLED TO FEES

A. Defendants Are Not Entitled to Fees Under the Copyright Act

Under the Copyright Act of 1976, the court in its discretion "may allow the recovery of full costs by or against any party .. [and] may also award a reasonable attorney's fee to the prevailing party as part of the costs." 17 U.S.C. § 505. The attorney fees provisions of the Copyright Act apply equally to prevailing defendants. *Jackson v. Axton*, 25 F.3d 884, 890 (9th Cir. 1994) (citing *Fogerty v. Fantasy*, *Inc.,* 510 U.S. 517, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994)).

In *Fogerty, supra,* the Supreme Court set forth a list of nonexclusive factors that may be used to guide the trial court's discretion in determining fee awards. 510 U.S. at 534, fn. 19. Those factors include, but are not limited to, the degree of success obtained, frivolousness, motivation, objective unreasonableness in both factual and legal arguments, and "the need in particular circumstances to advance considerations of compensation and deterrence." *Jackson, supra*, 25 F.3d at 89. The trial court should consider the purposes of the Copyright Act in awarding any fees. *Id.*

As discussed below, because Plaintiff's claims further the purposes of the Copyright Act in protecting against infringement and are not unreasonable or in bad faith, an award of fees is not merited. The *Fogerty* factors mitigate against awarding any fees to Defendants.

1. Plaintiff's Copyright Claims Are Not Unreasonable Or Frivolous

This is not a case where the copyright claims were objectively unreasonable, such as where the plaintiff had no evidence to support its claims or alleged claims that were factually unreasonable. In those situations, courts properly award fees. *See Maljack Productions, Inc. v. GoodTimes Home Video Corp.,* 81 F.3d 881, 890 (9th Cir. 1996) (claims that were "completely contradicted" by language of parties' contract were factually unreasonable, if not frivolous); *Entertainment Research Group, Inc. v. Genesis Creative Group, Inc.*, 122 F.3d 1211, 1228-29 (9th Cir 1997) (affirming fee award where plaintiff had no evidence to support its copyright claim); *Hughes v. North American, Inc.* 724 F.2d 122, 125 (Fed. Cir. 1984) (fee award merited where plaintiff's lawyer knew claim was not valid); *Diamond v. Am-Law Pub. Corp.*, 745 F.2d. 142, 148 (2d Cir. 1984) (affirming fee award where copyright claim lacked reasonable legal basis).

Here, the ongoing infringement by the Stolen Content Websites is undisputed, as is Defendants' knowledge of that infringement. The Stolen Content Merchants continue to infringe Plaintiff's copyrights, and Defendants continue to make a profit off of those infringements. While this Court has determined that Defendants' connection to the infringement does not give rise to liability under the Copyright Act (a determination with which Plaintiff respectfully disagrees), the <u>fact</u> of infringement and continuing harm to Plaintiff arising, in part, from Defendants' conduct is beyond dispute. In short, this is not a case where the plaintiff does not own a valid copyright, or the defendant has a fair use or other undeniable defense to infringement. *See id.*

The issue in this case, rather, is whether Defendants' role in providing credit card services to known infringers gives rise to contributory or vicarious liability. Plaintiff contends that it does, and its position is reasonable and well-founded in light of applicable law and the facts alleged. While the Court found that Plaintiff failed to state a claim, the legal issues are novel and still not settled (*e.g.*, the pending *Grokster* appeal). Fees are not warranted under these circumstances.

(a) Plaintiff's Claims for Vicarious Infringement Are Not Frivolous

To state a claim for vicarious liability for copyright infringement, a plaintiff is only required to show: (1) direct infringement by a primary infringer; (2) a direct financial benefit to the defendant; and (3) the right and ability to supervise the infringers. *Grokster*, 380 F.3d at 1164. The first two elements are undisputed here. Plaintiff alleges in its First Amended Complaint ("FAC") that the Stolen Content Websites infringe Plaintiff's copyrighted works, and that Plaintiff informed Defendants of the direct infringements. [FAC, in Court's file, ¶¶ 6, 36.] The dispute here is whether Plaintiff adequately alleged the right and ability to supervise the infringing websites.

As discussed in opposing the motion to dismiss, right and ability to supervise may be shown by a variety of factors, not all of which need be present in each case. *See, e.g., Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9^{th} Cir. 1996) (vicarious liability shown where defendant swap meet operator controlled the premises where vendors sold infringing records, had the ability to control the vendors because it had the right to terminate them for any reason, promoted the swap meet, and controlled customers' access); *A&M Records, Inc. v. Napster*, 239 F.3d 1004 (9th Cir. 2001)(defendant had right to control access and ability to police its system and ability to locate infringing material); *UMG Recordings, Inc. v. Sinnott*, 300 F. Supp.2d 993 (C.D. Cal. 2004) (defendant flea market owner ran the market, set its rules and regulations, had the right to inspect merchandise and to refuse or cancel rentals, and restricted the types of merchandise sold).

In *Grokster*, the Court found that "salient characteristics" of the right and ability to supervise often include a formal licensing agreement with the direct infringer, the right to block access to users, the requirement that users register in order to access the system, promoting the infringers, the ability to block access to customers of the infringers, the ability to control infringers through rules and regulations, and maintenance of central indices or files. 380 F.3d at 1164-65.

The FAC here adequately alleges the right and ability to supervise, including that:

- Defendants agreements with infringing merchants are formal licenses;
- Defendants have an express policy reserving the right to block an infringing merchant's access, including for illegal conduct;
- The merchant agreements effectively function as a form of registration;
- Defendants require merchants to display their logos;
- Defendants can block customer access to infringers by declining charges;
- Defendants can prevent Stolen Content Websites from receiving payment;
- Defendants control merchants through rules and regulations; and
- Defendants maintain records of all transactions and can know from those records each time an illegal transaction occurs.

See Plaintiff's Combined Opposition to Motions to Dismiss, 12-16; FAC, ¶¶ 14-29 and Exh.1.

Thus, the FAC met all of the "salient characteristics" discussed in the *Grokster* opinion. While the Court disagreed with Plaintiff and found that the allegations of the FAC did not state a claim, Plaintiff's allegations of vicarious liability clearly are not objectively unreasonable, let alone frivolous or motivated by an improper purpose. *Jackson, supra*, 29 F.3d at 89. To award fees simply because

Plaintiff lost the motions would eviscerate the *Fogerty* factors and convert the Court's discretion to award fees into an automatic right to the prevailing party, which is not the law. *Id.* Because Plaintiff acted reasonably and in good faith in asserting its claim for vicarious liability, there is no reason to award fees.

(b) Plaintiff's Claims for Contributory Infringement Are Not Frivolous

To state a claim for contributory copyright infringement, a plaintiff is required to show: (1) direct infringement by a primary infringer; (2) knowledge by the defendant of that infringement; and (3) material contribution to the infringement. *Grokster*, 380 F.3d at 1160. The first two elements are undisputed here. Plaintiff alleges that the Stolen Content Websites infringe Plaintiff's copyrighted works, and that Plaintiff informed Defendants of the direct infringements. [FAC, in Court's file, ¶¶ 6, 31, and Exh. 2.] The motions focused only on Defendants' "material contribution" to the infringement. Plaintiff alleges that the Stolen Content Websites could not exist without Defendants' services to process payments. [FAC, ¶ 7.] Plaintiff also alleges that the Stolen Content Websites were required to comply with all applicable laws, and that Defendants had the right to investigate and terminate any merchants for illegal conduct, to inspect their websites, and to approve all products sold, [FAC, ¶¶ 19-22, 24, 26.] Plaintiff contends that these facts are sufficient to establish "material contribution" to the direct infringement. *See Grokster*, 380 F.3d at 1163 (grounds for liability may exist where an access provider fails to disable access or to delete infringing files after notice of a direct infringement). While this Court disagreed, the assertion of that claim was not objectively unreasonable or in bad faith. *See* Plaintiffs' Combined Opposition to Motions to Dismiss, 16-18. Again, there is no basis for a fee award. *Jackson, supra*, 29 F.3d at 89.

2. Plaintiff's Claims Further the Purpose of the Copyright Act

The pivotal criterion for awarding attorney's fees is whether the successful claim or defense furthers the purposes of the Copyright Act." *Fantasy, Inc., v. Fogerty*, 94 F.3d 553, 558 (9th Cir. 1996). The Copyright Act's primary objective is "'to encourage the production of original literary, artistic, and musical expression for the good of the public.'" *Id.* at 557.

Defendants here have not furthered the purposes of the Copyright Act, since they produce no new works. For example, in *Fogerty*, the defendant, musician John Fogerty, was defending his copyright claim to his song "Old Man Down the Road" against claims by his former record company Fantasy, which owned the rights to another song of Fogerty's, "Run Through the Jungle." As the Supreme Court noted, Mr. Fogerty's "successful defense of 'The Old Man Down the Road' increased public exposure to a musical work that could, as a result, lead to further creative pieces." *Fogerty, supra*, 510 U.S. at 527. If Mr. Fogerty had not defended his right to create and obtain the rights to other non-infringing songs, the public would not have heard them.

By contrast, in the present case, Plaintiff owns its copyrighted photographs and seeks to stem the ongoing theft of its images facilitated by Defendants. Given that it is practically impossible to seek redress against the infringing websites themselves, which are usually located outside the U.S., Plaintiff justifiably chose to seek legal redress against Defendants, who facilitate the illegal activities of the Stolen Content Websites and profit from them. Although this Court disagreed with Plaintiff, the issues here were well-grounded in existing law, supported by fact, and raised as a legitimate exercise of Plaintiff's intellectual property rights. Nothing about this action was frivolous, or even out of the mainstream of litigation concerning these issues. Plaintiff's claims directly further the Act's primary purpose of encouraging the production of original works in seeking to protect the author's rights in those works. Defendants' arguments concerning their "ability to enable commerce" through their payment systems and the alleged "social importance" of the defense of the action [Visa Motion, 4] are inapposite, as any policy concerns about the impact of rulings on the financial system are beyond the scope of the Copyright Act.

3. Considerations of Deterrence Are Not Implicated

Considerations of deterrence also do not mitigate in favor of an award of attorneys' fees. This is a case involving undisputed and ongoing infringement by Stolen Content Websites that are substantially aided in their conduct by Defendants (and, indeed, would not be able to operate without Defendant's services). Defendants have the right and ability to control the Stolen Content Websites under the terms of their agreements and could effectively stop the sales of infringing content by enforcing their contractual rights and abilities. Nonetheless, Defendants have refused to take any action to halt the repeated infringements even after written notice from Plaintiff. Plaintiff continues to suffer considerable financial and other harm from the ongoing acts of infringement. Plaintiff has no viable means of pursuing claims against the vast majority of the Stolen Content Websites directly, including because those websites are "virtual" businesses whose owners often are located in remote parts of the world.

As a result, and in light of the ongoing and substantial infringement, Plaintiff is well-justified in pursuing claims for third party liability against Defendants. Those claims are not frivolous or abusive. The parameters of third party liability in the quickly shifting world of high technology and Internet commerce are far from settled and, no doubt, will be revised in the years to come. Plaintiff and others in its situation should not be "deterred" from making good faith legal arguments to protect intellectual property rights in situations where ongoing infringement is undisputed and redress against direct infringers is impracticable, at best.

B. Defendants Are Not Entitled to Fees Under the Lanham Act

A prevailing defendant may recover fees under the Lanham Act only in "exceptional cases." 15 U.S.C. § 1117; *Mattel v. Walking Mountain Productions*, 353 F.3d 792, 816 (9th Cir. 2003) Fees are appropriate under the Lanham Act only when the plaintiff's case is "groundless, unreasonable, vexatious, or pursued in bad faith." *Mattel, supra*, 353 F.3d at 816.

Here, none of those "exceptional" circumstances apply. Plaintiff's Lanham Act claims were not groundless or unreasonable, let alone vexatious or in bad faith. While the Court disagreed with Plaintiff, the mere dismissal of the action is not enough to make this an "exceptional case." Otherwise, the "exception" would swallow the rule, and every losing plaintiff would by definition be required to pay fees.

Plaintiff's trademark claims here were reasonable based on the facts alleged and applicable law. With respect to vicarious trademark infringement, Defendants and the Stolen Content Websites have the ability to bind each other in transactions with third parties. When Defendants accept a charge, their agreement with the Website binds them to process the charge and likewise binds the merchant to provide products to the customer. Hence, Defendants and the Stolen Content Websites "have an apparent or actual partnership, having authority to bind one another in transactions with third parties or exercise joint … control over the infringing product." *Hard Rock Café Licensing Corp. v Concession Services, Inc.*, 95 F.2d 1143, 1150 (9th Cir. 1992). Plaintiff thus alleges a claim for vicarious trademark infringement. *See id.*

Plaintiff also alleges a claim for contributory trademark infringement and has alleged facts to show that Defendants (a) intentionally induce another to infringe a trademark, or (b) continue to supply a product knowing that it will be used to infringe a trademark. *See Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996). As alleged in the FAC, Defendants provide the financial incentive for the Stolen Content Websites by purchasing the credit card charges for stolen material and hence provide inducement for the infringement. Defendants also have continued to supply services to the Stolen Content Websites after being notified by Plaintiff of the infringement. While the Court disagreed with Plaintiff as to whether it had stated a trademark claim, there is no question that the facts alleged fall within the parameters of contributory and vicarious trademark infringement. The trademark claims were not vexatious or in bad faith. This is not an "exceptional case" meriting an award of fees. *Mattel, supra*, 353 F.3d at 816.

C. <u>There Is No Basis to Award Sanctions Under 28 U.S.C. § 1927</u>

Contrary to Defendants' arguments, the First Amended Complaint was neither "frivolous," pursued in bad faith, nor filed for any reason other than the merit of the pleading itself. There are significant differences between the initial Complaint and the FAC. [*See* red-lined comparison of both complaints attached to MasterCard/First Data's Memorandum of Points and Authorities In Support of Motion to Dismiss First Amended Complaint, in Court's file.] The differences in the FAC include, for example., substantive new allegations concerning the scope of Defendants' contractual right and ability to control the infringing conduct of the Stolen Content Websites. The FAC thus added new, relevant facts. [*See id.*, *e.g.*, at ¶¶ 14-29.] Plaintiff had solid legal, procedural, and factual grounds to amend its pleading in order to address the defects the Court found in the original Complaint, as well as to insure that the amended pleading included all necessary allegations in the event that the second motion resulted in a dismissal with prejudice and hence an appeal would be necessary. Since the Ninth Circuit will decide any appeal on the basis of the record before it, Plaintiff had every right and reason to amend its Complaint to include any additional factual allegations that might address the Court's concerns the first time out and also that might be relevant to any later appellate court ruling. The Court, after considering all the arguments, granted

Plaintiff leave to amend to cure the defects in the original Complaint.

In light of the above, there is absolutely no basis for the Court to award sanctions under 28 U.S.C. Section 1927. Section 1927 provides that any attorney "who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct." 28 U.S.C. § 1927. Section 1927 by its express terms does not apply to the filing of a lawsuit. *In re Keegan Management Co. Securities Litigation*, 78 F.3d 431, 435 (9th Cir. 1996). Section 1927 only applies to unreasonable and vexatious "multiplication" of a proceeding. *Id*

Defendants seek sanctions here merely for the filing of the FAC. The FAC is not a basis for sanctions, however, because the mere filing of an amended pleading after leave to amend has been granted, as a standalone act, can hardly "so multipl[y] the proceedings unreasonably and vexatiously" that sanctions are merited, regardless of the merits of the amendment. *See* 28 U.S.C. § 1927.

Besides, an award of sanctions under Section 1927 "must be supported by a finding of subjective bad faith." *Keegan, supra,* 78 F.3d at 436.; *see also Goehring v. Brophy*, 94 F.3d 1294, 1306 (9th Cir. 1996) (imposition of sanctions under Section 1927 requires finding that attorney acted recklessly or in bad faith). "'Bad faith is present when an attorney knowingly or recklessly raises a frivolous argument, or argues a meritorious claim for the purpose of harassing an opponent.'" *Id.* (citing cases). Here, Plaintiff contends that the amendments were not frivolous and assert valid claims for relief. That the Court dismissed the claims does not equate to a finding of "subjective bad faith" or intent to harass. There was none. *Id.* (reversing sanctions award where there was no finding of subjective bad faith or intent to harass). Section 1927 sanctions may be appropriate where the attorney's conduct was truly egregious. *See, e.g., Trulis v. Barton*, 107 F.3d 685, 694 (9th Cir. 1997) (sanctions justified under Section 1927 where the attorney disregarded his client's express instructions and continued to insist he represented persons he was not authorized to represent, thus multiplying the proceedings). Attempting in good faith to cure defects in a complaint after leave has been granted is hardly sanctionable.

The cases cited by Defendants [MasterCard Motion, 14] are inapposite. In *Estate of Blas*, 792 F.2d 858, 860 (9th Cir. 1986), the court reversed the trial court's sanctions award, finding that the motion for reconsideration arguing legal positions that the district court may have overlooked "did not constitute an unreasonable and vexatious multiplication of proceedings." In *Hedges v. Resoltion Trust Corp.*, 32 F.3d 1360, 1363 (9th Cir. 1994), the court found that sanctions could not be awarded under Section 1927 because there was no finding of recklessness or bad faith. Finally, *In re Peoro*, 793 F.2d 1048, 1049 (9th Cir. 1986) involved a truly vexatious litigant who relitigated an issue that had already been decided against him in a prior proceeding, and thus was "a textbook example of the use of litigation to bludgeon opponents into submission." None of these cases suggest that seeking to amend a complaint after leave has been granted gives rise to sanctions.

D. The Fees Sought by Defendants Are Unreasonable

1. The Fees Claimed by Defendants Are Exorbitant

> Section 505 of the Copyright Act of 1976 does not authorize an award of whatever the actual attorney's fees may be, but only of "reasonable" attorney's fees spent on litigation.

Fantasy, Inc. v. Fogerty, 1995 WL 261504 at *2 (N.D. Cal. May 2, 1995).

By their respective Motions, Visa seeks $299,603.16 in fees and costs, Mastercard seeks $232,554.70 in fees and costs, and the First Data defendants seek $199,659.00 in fees and costs. In total, Defendants seek $731,816.86 in attorneys' fees and costs. These fees are excessive, in bad faith, unreasonable, and nothing more than a blatant effort to punish plaintiffs for seeking to protect their valuable intellectual property rights based on good faith, reasonable legal claims.

In terms of hours, Visa seeks reimbursement for 846.50 hours of legal time [Exh. 1 to Visa's Bill of Costs], Mastercard claims 567.30 hours of legal time [Exh.

1 to Mastercard's Bill of Costs], and the First Data defendants claim 475.53 hours of legal time [Exh. 1 to First Data's Bill of Costs]. In total, Defendants claim to have spent 1,889.33 hours on this case in connection with briefing two similar motions to dismiss on claims that defendants contend were "frivolous." It is abundantly clear given the context that the nearly 1,900 hours of attorney time were unreasonable.

The Court should note that the only substantive activity in the case involving Defendants was their two motions to dismiss under Rule 12(b)(6). There was no discovery. The parties did not even conduct the initial Rule 2(f) meeting. [Jansen Decl, ¶ 6.] Defendants also claim to have cooperated in the joint defense in order to minimize costs. [Jansen Decl, ¶¶ 6-7.] Defendants filed a consolidated motion to dismiss the initial Complaint and a consolidated reply, and they filed only three short briefs with their motions to dismiss the FAC. In total, Defendants filed only five legal memorandums in connection with the Rule 12(b)(6) motions consisting of 106 pages of total legal briefing. At 1,900 total billable hours, that works out to a little under 19 hours for each page of legal briefing Defendants submitted. Their claim for nearly1,900 hours of legal work at a cost of nearly $750,000 for a case that resolved at the initial pleading stage is beyond the pale.

2. The Lodestar Approach Does Not Justify the Fees Sought

Regardless of any fees that Defendants may have actually incurred, the Court's duty here (assuming it is inclined to award fees at all, which it should not) is to calculate a reasonable fee award based upon the reasonable hours spent multiplied by a reasonable hourly rate.

Calculation of the amount of attorneys' fees properly awarded under the Lanham Act or the Copyright Act begins with the calculation of a "lodestar" amount. *Nintendo of America, Inc. v. NTDEC*, 822 F. Supp. 1462, 1466-67 (D. AZ 1993) The "lodestar" amount is "'the number of hours reasonably expended on the litigation multiplied by a reasonable hourly rate.'" *Id*.

The lodestar amount is presumptively reasonable, *id.* at 1467, but may be adjusted based upon various factors, including the time and labor required, the preclusion of other employment by the attorney due to acceptance of the case, time limitations imposed by the client or the circumstances, the "undesirability" of the client, and awards in similar cases. *Id.* at 1467 fn. 3 (citing *Kerr v. Screen Extras Guild*, 526 F.2d 67, 70 (9th Cir. 1975)). Adjustments should be made only in rare cases. *Yahoo!, Inc. v. Net Games, Inc.*, 329 F. Supp.2d 1179, 1182 (N.D. Cal. 2004).

In short, "a reasonable attorney fee is the number of hours and the hourly rate that would be billed by 'reasonably competent counsel.'" *Yahoo!, supra*, 329 F. Supp.2d at 1182. "Reasonably competent counsel bill a reasonable number of hours," do not bill hours that are redundant, excessive, or otherwise unnecessary, and "bill at a reasonable hourly rate based on the local legal community as a whole." *Id.* at 1183 (citing *Hensley v. Eckerhart*, , 461 U.S. 424, 434, 103 S.Ct. 1933, 76 L.Ed.2d 40 (1983))..

Here, the hours spent and hourly rates are not reasonable.

(a) The Nearly 1,900 Hours Spent Are Not Reasonable

In determining the reasonable number of hours billed, the court must first determine

> … whether the requested number of hours is greater than, less than or the same number of hours that reasonably competent counsel would have billed. If the requested number of hours is greater than the number of hours reasonably competent counsel would have billed, then the court should reduce the requested number of hours accordingly.

Yahoo!, supra, 328 F. Supp.2d at 1184 (citing *Hensley, supra,* 461 U.S. at 434.

Defendants claim to have spent nearly 1,900 hours defending this case. The only substantive work involved, however, was two motions to dismiss. The first motion involved two consolidated briefs filed by Defendants. The second motion involved only three short briefs where much of the legal research no doubt was simply "cribbed" from the first motion. The legal briefing, in total, is barely 100 pages. Defendants claim to be experts in this field and claim that Plaintiff's claims were so contrary to settled law as to be objectively unreasonable. Defendants, tellingly, submit no timesheets or other billing detail. That is because there is no way to justify the nearly 1,900 hours spent on two motions at the initial pleading stage. The hours claimed by Defendants are excessive and unwarranted. To the extent the Court is inclined to award fees, it should do so based on a reasonable number of hours to draft two motions – a figure that would be only a small fraction of the nearly 1,900 hours Defendants claim to have spent.

(b) The Hourly Rates Claimed Are Not Reasonable

"A reasonable attorney fee is the fee that would be charged by reasonably competent counsel, not counsel of unusual skill and experience." *Yahoo!, supra*, 329 F. Supp.2d. at 1184 (reasonable hourly rate is one "based on rates charged in the local legal community as a whole, not particular segments of the bar"). An above-average rate is not merited simply on the ground that "counsel of unusual skill or experience increase the chance that a party will prevail." *Id*. at 1186.

Under the prevailing Supreme Court cases,

> fee applicants are entitled to an award sufficient to "enable them to secure reasonably competent counsel," but are not entitled to an award "necessary to secure counsel of their choice." … Accordingly, courts award the fee that would be charged by reasonably competent counsel, not the fee due under the particular agreement between the fee applicant and its attorneys. Limiting the award to the fee charged by reasonably competent counsel fulfills the aim of fee-shifting provisions, which is to allow parties to employ reasonably competent counsel "without cost to themselves if they prevail." ... Thus, even if a party chooses to employ counsel of unusual skill and experience, the court awards only the fee necessary to secure reasonably competent counsel.

Yahoo!, supra, 329 F. Supp.2d at 1183 (citations omitted).

In determining a reasonable rate, the court should compare the requested rates with the "prevailing market rate," which is the rate "prevailing in the community for similar services of lawyers with reasonably comparable skill, experience, and reputation." *Yahoo!, supra*, 329 F. Supp.2d. at 1185. A particular attorney's hourly rate generally is relevant, but not dispositive evidence of a reasonable rate. *Id.* (citing cases). "[T]he average market rate in the local legal community as a whole is a better approximation of the hourly rate that would be charged by reasonably competent counsel than the actual billing rate charged by a single attorney." *Id.* "The losing party is obligated to pay only the rate charged by reasonably competent counsel." *Id.* at 1186; *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1385 (1984) ("[t]he criterion for the court is not what the parties agreed but what is reasonable" based on customary fees in the community).

In *Yahoo!*, *supra*, the trial court found in July 2004, based on information from the Bureau of Labor Statistics, that the estimated average hourly rate for attorneys in the San Francisco area was $190, and the hourly rate was $70 for paralegals. *Yahoo!, supra*, 329 F. Supp.2d. at 1191.

Here, Defendants claim hourly rates as high as $700 (Robert A. Van Nest), and over $500 for several other attorneys. Rates for associates are often over $300, even for some junior attorneys. [*See* First Data's Bill of Costs, Exh. 1; Page Decl, ¶ 4; Jansen Decl, ¶ 18; Bridges Decl, ¶ 18.] Defendants provide no evidence other than their attorneys' conclusory, self-serving declarations that these high rates comport with market norms for reasonably competent counsel. The Court should apply an hourly rate (if fees are to be awarded at all, which award Plaintiff contends is unwarranted) that is consistent with the rate applied in *Yahoo!*, *supra*.

3. Defendants Have Not Made the Required Showing

The party seeking fees bears the burden of showing the time spent and that it was reasonably necessary to obtain a successful result. *See Fogerty, supra,* 1995 WL 261504 at *2; *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 886 F.2d 1545, 1557 (9th Cir. 1989).

Generally, the prevailing party is required to document the hours expended and to submit detailed invoices or timesheets reflecting the tasks performed. *Fantasy, Inc., supra*, 1995 WL 261504 at * 2 (fees adequately documented by contemporaneous billing statements and invoices sent to the client); *Frank, supra*, 886 F.2d at 1556-57 (vacating fee award, including in light of counsel's failure to provide contemporaneous time records); *Hensley, supra,* 461 U.S. at 437 fn. 12 (prevailing party's counsel "should identify the general nature of his time expenditures").

In the absence of contemporaneous time records, the hours claimed "should be credited only if reasonable under the circumstances and supported by other evidence such as testimony or secondary documentation." *Frank, supra*, 886 F.2d at 1557. The trial court "can abuse its discretion in certain circumstances by not requiring the party requesting attorney's fees to submit any materials besides summaries of the time expended to litigate a matter." *Entertainment Research Group, supra*, 122 F.3d at 1231.

Moreover, the prevailing party's counsel "should make a good faith effort to exclude from a fee request hours that are excessive, redundant, or otherwise unnecessary." *Sealy, supra*, 743 F.2d at 1385 (vacating fee award where trial court accepted wholesale findings prepared by prevailing party and no effort was made to exclude unnecessary hours).

Here, defendants have made no showing of time spent other than conclusory attorney declarations summarizing in only the broadest possible strokes the nearly 1,900 hours allegedly expended on this case. No timesheets or any detail has been submitted. Clearly, no effort was made by Defendants to eliminate any hours that may have been excessive, unnecessary, or redundant. *Sealy, supra*, 743 F.2d at 1385. The nearly 1,900 hours are plainly excessive, particularly given Defendants' claim that they have cooperated to keep costs down. The Court cannot accept defendants' claims of time spent wholesale, *Sealy, supra*, 743 F.2d at 1385, yet no basis is provided for the Court to ascertain what portion of those 1,900 hours were reasonable.

4. Defendants Have Not Apportioned Between Claims

A prevailing defendant on a copyright claim may recover its attorneys' fees incurred defending against the copyright claim and any closely related claims. *The Traditional Cat Ass'n, Inc. v. Gilbreath*, 340 F.3d 829, 833 (9th Cir. 2003). A prevailing party on a Lanham Act claim may recover attorneys' fees relating to the Lanham Act claim and any other claims that are so intertwined that it is impossible to differentiate between work done on the other claims. *Id.*; *Gracie v. Gracie*, 217 F.3d 1060, 1069-70 (9th Cir. 2003). Claims are related if they arise from a common core of facts and involve related legal theories. *See Sorenson v. Mink*, 239 F.3d 1140, 1147 (9th Cir. 2001); *Odima v. Westin Tuscon Hotel*, 53 F.3d 1484, 1499 (9th Cir. 1995); *Entertainment Research Group, supra*, 122 F.3d at 1230.

Where copyright and non-copyright claims are not related, fees are <u>not</u> recoverable for the non-copyright claims, and hence the court has a duty to make some attempt to apportion fees, even if an exact apportionment is impossible. *Traditional Cat, supra*, 340 F.3d at 834.

Here, the state law claims are not related to or intertwined with the copyright and Lanham Act claims. This case never progressed to the discovery stage. The only "facts" are those alleged in the complaints. The legal claims based on those alleged facts involve distinctly different theories (tort versus copyright, etc.), and there is no overlap in the legal research relevant to the two motions to dismiss (the only substantive work in the case). Nonetheless, Defendants have made no effort to apportion fees between the copyright and trademark claims, for which fees may be recoverable, and the state law claims, for which there is no statutory or other right to fees. Plaintiff asserted a variety of state law claims for wrongful use of a registered mark, violation of right of publicity, unfair competition, false advertising, libel, injunctive relief, and intentional interference with prospective economic advantage. [*See generally* Complaint and FAC, in Court's file.]

While Defendants claim to be unable to apportion any time spent only on the state law claims, apportionment should be simple here since there was no discovery, and the only work involved was legal research and drafting. Defendants' billing records (which were not provided) should reflect which legal research and drafting hours related to the state law claims. The state law claims involve separate and distinct legal issues from the copyright and trademark claims. These claims are not related. The Court has a duty to apportion. *Id.* Defendants' request for fees, if granted, should be reduced for any work related to the state law claims.

Likewise, Defendants have not identified time spent defending the copyright claims as opposed to Lanham Act claims. Those two claims involve separate and distinct statutory schemes and legal issues and are not "related." The standards for awarding fees for copyright claims (*Fogerty* factors) and Lanham Act claims ("exceptional circumstances") differ. To the extent the Court awards fees for only one of these two statutory claims, the Court should apportion fees accordingly.

III. CONCLUSION

For each of the foregoing reasons, Plaintiff respectfully requests that this Court deny the Defendants' motions for attorneys' fees and costs, in their entirety. In the alternative, to the extent the Court determines that an award of fees is merited, the Court should award fees in a reasonable amount that is only a small fraction of the nearly $750,000 sought by Defendants. The Court should also issue such other and further relief as the Court deems just and proper.

DATED: January 10, 2005 KING, HOLMES, PATERNO & BERLINER, LLP

By: /s/
SETH MILLER
Attorneys for Plaintiff PERFECT 10, INC.

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