No. 11-56357

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

MATTEL, INC. AND MATTEL DE MEXICO, S.A. DE C.V., ET AL.,

Plaintiffs-Appellants,

v.

MGA ENTERTAINMENT, INC., ET AL.,

Defendants-Appellees.

On Appeal From The United States District Court
For The Central District of California
Hon. David O. Carter, District Judge
No. 04-cv-9049 DOC (RNBx)

OPENING BRIEF OF PLAINTIFFS-APPELLANTS

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CORPORATE DISCLOSURE STATEMENT

Mattel, Inc. is a publicly traded corporation. It has no parent corporations and no publicly traded corporation owns more than 10% of its stock. Mattel, Inc. owns more than 10% of the stock of Mattel de Mexico. No other publicly traded corporation owns more than 10% of the stock of Mattel de Mexico.

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PRELIMINARY STATEMENT

This appeal by Mattel from a ***$310 million*** judgment returns this case to this Court for the second time, after a second trial. In the first appeal, this Court vacated equitable relief awarded to Mattel by the district court (Larson, J.) after the first trial in this matter. In that trial, the jury found that MGA had infringed Mattel's copyrights in "Bratz" drawings and a Bratz sculpt created by doll designer Carter Bryant during his employment at Mattel. *Mattel, Inc. v. MGA Entm't, Inc.*, 616 F.3d 904 (9th Cir. 2010). This Court held that the jury on remand might well find that Mattel owned Bratz and that the district court on remand might well award Mattel equitable relief. But the Court held that the "Inventions Agreement" between Mattel and Bryant required further interpretation, and that the constructive trust and copyright injunction awarded by the district court in the first trial were too broad. *Id.* at 909-10, 913. The Court stressed the need to distinguish MGA's "legitimate efforts" and "sweat equity" from any theft of the Bratz inventions, *id.* at 911, and held that no one could have a monopoly on the idea of "fashion dolls with a bratty look or attitude," *id.* at 917.

On remand, the second jury reached the opposite result on the same copyright claim. It did so despite extensive evidence that Bryant created Bratz under his contract with Mattel, that MGA induced his wrongdoing by secretly paying Bryant and other Mattel employees to develop Bratz while still working for

Mattel, and that MGA infringed Mattel's copyrights by using the resulting doll sculpt for every Bratz doll MGA later sold. Mattel believes that the first jury reached the proper verdict on its copyright claim, but, after two trials and more than eight years of litigation, does not contest the second jury's verdict here.

Mattel does challenge the judgment entered by the subsequently assigned district court judge (Carter, J.) for ***$172.5 million*** on MGA's newly added counterclaim for trade-secret misappropriation and ***$137.2 million*** in attorneys' fees and costs for MGA's defense of Mattel's copyright claim.

MGA's trade-secret counterclaim alleged that Mattel had sent employees into MGA's showrooms at industry toy fairs to see MGA's products before their release. The jury found that 88 of MGA's 114 purported trade secrets were not trade secrets at all or were not misappropriated, but returned a verdict in MGA's favor on 26 of them. The trade-secret counterclaim should have been dismissed before trial as time-barred; MGA knew of the toy-fair conduct by 2004 but waited until 2010 to file its counterclaim, and the judge erred in finding that the counterclaim related back to Mattel's 2006 claim that Bryant and other Mattel employees stole Mattel's entirely different trade secrets in defecting to MGA. In any event, the trade-secret verdict was unsupported by evidence that MGA had protectable trade secrets in the 26 products it displayed to retailers and the press at toy fairs, nor by any evidence that Mattel gained any unjust enrichment from

seeing these products. And copyright fees and costs should not have been shifted at all for Mattel's good-faith pursuit of a copyright claim on which it prevailed before the first jury and first judge. The fees and costs in any event should be vacated because based on redacted work descriptions and inflated amounts that conferred a windfall on MGA.

JURISDICTIONAL STATEMENT

The district court had jurisdiction under 28 U.S.C. §§ 1331 and 1367, 17 U.S.C. §§ 101 *et. seq.*, and 18 U.S.C. § 1964(c). This Court has jurisdiction pursuant to 28 U.S.C. § 1291. On August 11, 2011, Appellants filed a timely Notice of Appeal. ER3.

QUESTIONS PRESENTED

1. Should MGA's trade-secret counterclaim have been dismissed as untimely and as not relating back to a Mattel claim addressing different and unrelated trade secrets?

2. Should the judgment that Mattel was liable for misappropriating 26 trade secrets that MGA displayed at toy fairs for publicity purposes be reversed or vacated?

3. Should the judgment of $85 million in trade-secret damages be reversed or vacated as unsupported by any evidence that Mattel was unjustly enriched in amounts of $3.4 million per trade secret?

4. Should the award of $85 million in exemplary damages and $2.52 million in fees and costs be reversed or vacated if the trade-secret damages are reversed or vacated?

5. Should the award to MGA of $105.6 million in copyright attorneys' fees and $31.6 million in copyright costs be reversed as improperly shifted to Mattel, and should those awards in any event be vacated as calculated based on improperly redacted descriptions and inflated amounts?

STATEMENT OF THE CASE

On April 27, 2004, Mattel sued Carter Bryant in California state court alleging disloyalty and breach of contract for having worked with MGA on Bratz while employed as a Mattel designer. On September 8, 2004, Bryant cross-claimed against Mattel, seeking to invalidate Mattel's employment agreements, and later removed Mattel's case to federal court and filed a stand-alone declaratory relief action there. ER1395 (Dkt. 1). On December 7, 2004, MGA intervened in Mattel's action against Bryant, claiming its rights in Bratz were at stake. ER1399 (Dkt. 36). On April 13, 2005, MGA filed its own stand-alone federal suit against Mattel, alleging that Mattel had infringed its rights by copying MGA's trade dress and had interfered with MGA's business relationships. ER1403 (Dkt. 1).

On November 20, 2006, Mattel sought leave to amend its removed complaint by adding copyright, trade-secret and RICO claims and adding MGA,

MGA Mexico and their principal, Isaac Larian, as defendants. ER1522 (Dkt. 89). The district court required that these claims, which addressed not only Bratz but what Mattel claimed was a widespread pattern of wrongdoing by MGA, be brought as counterclaims to MGA's action (ER1525 (Dkt. 142)); Mattel did so on January 12, 2007. ER1340.

At MGA's request, the court bifurcated the litigation, trying the claims relating to Bryant's breaches of duty, ownership of Bratz rights and copyright infringement in Phase 1, and postponing the remaining claims for Phase 2. Phase 1 was tried in 2008, resulting in a liability verdict for Mattel and damages of $100 million, a state-law constructive trust and a copyright injunction in Mattel's favor. MGA took an interlocutory appeal to this Court.

On July 22, 2010, this Court vacated the equitable orders and remanded. On August 16, 2010, when MGA answered Mattel's amended counterclaims, MGA filed three new claims, denominated counterclaims-in-reply, for alleged trade-secret misappropriation under CUTSA, wrongful injunction and RICO violations. ER1125.

Following rulings dismissing MGA's claims for trade-dress infringement, unfair competition, unjust enrichment, RICO violations and wrongful injunction, and Mattel's claims for RICO violations, breach of constructive trust, aiding and abetting breach of fiduciary duty, and violations of CALIFORNIA CIVIL CODE

§§ 3439.04 *et seq*. and CALIFORNIA CORPORATIONS CODE § 501, and denying cross-motions for summary judgment, the parties' remaining claims were tried to a second jury beginning on January 18, 2011. *See* ER305.

The second jury found that Mattel did not own the Bratz works under its contract with Bryant, defeating Mattel's copyright claim, and that Mattel had misappropriated 26 of MGA's 114 alleged toy fair trade secrets, awarding MGA $88.5 million in damages. On post-trial motions, the district court remitted the jury's $88.5 million award to $85 million and awarded $85 million more in exemplary damages. ER32, 43. The district court also awarded MGA $105.6 million in attorneys' fees and $31.6 million in costs arising out of Mattel's copyright claim, and an additional $2.52 million in fees and costs for MGA's trade-secret claim. ER14, 16.

STATEMENT OF FACTS

A. The First Trial And First Appeal

The first trial in 2008 addressed Mattel's claims that it owned Bryant's Bratz name, designs and sculpt, and that MGA and Larian had infringed its copyrights and unlawfully induced Bryant's misconduct under California law. The district court had concluded on pre-trial motions that the Inventions Agreement between Mattel and Bryant, which assigned to Mattel inventions created "at any time during [Bryant's] employment by the Company," applied to inventions by Bryant during

the time period he was employed by Mattel whether or not within the scope of his employment. ER1309. The jury made special findings of fact that the works in question were created during this time period. ER1293. The jury found MGA and Larian liable for copyright infringement, intentional interference with contract, conversion, aiding and abetting breaches of duty, and fraudulent concealment (ER1272, 1293), and awarded Mattel $10 million on its copyright claim and $30 million on each of three state-law claims, totaling $100 million. ER1272. Following the verdicts, the district court ordered a copyright injunction and a constructive trust under state law. MGA appealed.

On appeal, this Court vacated the equitable relief and remanded. *Mattel v. MGA*, 616 F.3d 904. The Court disagreed with the district court's conclusion that the Inventions Agreement was unambiguous, finding that it might not cover ideas and might be read to exclude from Mattel's ownership works Bryant created during nights and weekends. *Id.* at 909-10, 912-13. But the Court held that Mattel might well show on remand that the agreement reaches ideas, *id.* at 910, and "might well convince a properly instructed jury that the agreement assigns works created outside the scope of employment, or that Bryant's preliminary Bratz sketches and sculpt were created within the scope of his employment at Mattel," *id.* at 913. The Court also clarified the standard for similarity to be applied to the copyright infringement claim on remand. *Id.* at 913-17.

B. The Pretrial Rulings

Upon remand, the newly assigned district judge ordered a complete new trial addressing both the claims addressed at the first trial and additional claims that had been bifurcated for trial in a second phase. ER1098. MGA also filed a new "counterclaim-in-reply" on August 16, 2010, alleging trade-secret misappropriation under the California Uniform Trade Secrets Act ("CUTSA"), CAL. CIV. CODE § 3426. Specifically, MGA alleged that Mattel employees including Salvador Villasenor had used false credentials to view unreleased products in MGA's toy fair showrooms. ER1129. Mattel moved to dismiss the new counterclaim as untimely under CUTSA's three-year statute of limitations because MGA was on notice of these claims from at least as early as 2004, when former Mattel employees Gustavo Machado and Ron Brawer left Mattel for MGA (ER1132, 1134), and because MGA had made similar allegations in its unclean hands defense and document requests more than three years before August 2010. ER1088, 1093-94, 1337-38. The district court denied the motion to dismiss, finding that MGA's counterclaim-in-reply was compulsory and therefore related back to Mattel's trade-secret counterclaims, which had alleged that Machado, Brawer and others had stolen Mattel's trade secrets when they left to work for MGA. The court reasoned that the information Mattel had asserted was misappropriated ***by*** MGA might have included information Mattel had

misappropriated ***from*** MGA, despite the differences in the trade secrets, actors, methods of misappropriation and time frames outlined in the two sets of allegations. ER234-40, 245-48.

On cross-motions for summary judgment, the court rejected MGA's argument that the Inventions Agreement by its terms conferred ownership of the Bratz works on Bryant and not Mattel. ER77-79. The court thus permitted Mattel's copyright claim to proceed, ruling that the jury could "easily" conclude that the "first-generation" Bratz dolls infringed Bryant's designs, and could reasonably conclude "that the protectable expression of the Bryant sculpt is substantially similar to the Bratz production sculpt" and "that the sculpts are virtually identical overall." ER82-84. The court also permitted MGA's trade-secret counterclaim to reach the jury, leaving it to the jury to decide "whether MGA's efforts to maintain the secrecy of its trade secret information were reasonable under the circumstances." ER228.

C. The Second Trial

A 13-week trial began on January 18, 2011. At the second trial, the new district court made "a number of [its] rulings" in MGA's favor, expressing "dissatisfactions" and "concern[s]" that at the first trial Mattel had "put Mr. Larian in the position of being perceived to be a fabricator" or "somebody who had not told the truth" from "the moment he took the stand" and stating that it was

"determined in this matter that that wouldn't occur" again. ER440-42. Taking full advantage of these concerns, MGA elicited false testimony from Larian in front of the jury that Mattel "killed my father" (ER433) and that "[Bryant] went to the airport and had a stroke" after testifying during the second trial (ER435). MGA also made false accusations before the jury that children had "died" from playing with Mattel toys (ER473) and that Mattel's ink expert had been involved in "chemical warfare" and associated with "the Soviet secret police" (ER467-68). MGA also argued falsely to the jury that Mattel had "whisked away" 35 boxes of documents (ER621; *see* ER723-27, 1074), but Mattel was barred from showing that Bryant had run an "Evidence Eliminator" program on his computer during the litigation (ER1077, 1080) and that Larian's brother, who co-founded MGA, had destroyed 10 to 12 boxes of documents related to the origins of Bratz during the litigation (ER1080).

Mattel's Copyright Evidence. On its copyright claim, Mattel introduced evidence, as it had in the first trial, that Bryant created the drawings and sculpt of a Bratz doll while working at Mattel, and that MGA and Larian knew this and entered into a contract with him to work on Bratz secretly for MGA while employed at Mattel and secretly paid other Mattel employees to do the same. *E.g.*, ER344, 359, 389-93, 409, 415-16, 423-25, 464-66, 485-86). Mattel also introduced evidence that the Bratz production sculpt was virtually identical to the

sculpt created by Bryant and was used for virtually every Bratz doll ever sold. ER401-03, 426-27.

MGA's Trade-Secret Evidence. On its trade-secret counterclaim, MGA alleged that certain Mattel employees or vendors had used fake business cards to enter toy fair showrooms in New York, Hong Kong and Nuremberg between 1999 and 2006, and had there obtained trade secrets concerning the "appearance, operation, intended play pattern and plans to advertise on television" of 114 MGA products. ER1492.[1] Toy fairs are annual promotional events where manufacturers display upcoming products, mockups and packaging to retailers and the press, who move freely among the manufacturers' displays. ER516-17. MGA gives retailers and reporters who visit its displays printed information about its upcoming lines, including product pictures. ER354, 518, 521, 553, 556, 688-92. MGA admitted it used the press to publicize information about its products at toy fairs (ER521, 549, 586-89, 688-89; *see* ER1063-65); by the time of the toy fairs at issue, press releases and news articles had issued as to almost half the products for which liability was found (ER339-41, 343, 348-50, 353, 357-58). Larian also acknowledged that retailers tell manufacturers about competing manufacturers' products seen at toy fairs, and that he had obtained such information from retailers

[1] Mid-trial, MGA was permitted to amend its claim to add for the first time "FOB pricing," or the wholesale prices MGA charged to retailers and distributors. ER1075.

and did not believe he was stealing "trade secrets" when he did so. ER342, 531, 558-60, 565. Another MGA manager likewise admitted in discovery that MGA employees routinely received information from retailers about unreleased Mattel products. ER1055-62, 1067-69.[2]

Larian nonetheless testified that ***all*** products in MGA's showrooms were secret because MGA personnel at the booths allowed access only to retailers and reporters and prohibited visitors from taking photographs. ER520-25. Larian testified that MGA used "separate room[s] completely locked" for certain "sensitive products" (ER530), but there was no evidence MGA did so for any of the 26 products on which the jury found liability. And Larian testified that for the past "few years" MGA required entrants to sign non-disclosure agreements (ER525), but the only such agreement MGA introduced was from the 2005 Hong Kong toy fair, where none of the jury's chosen 26 products was displayed (ER379).

MGA's Trade-Secret Damages Evidence. MGA's trade-secret damages expert, James Malackowski, offered two damages theories, both of which purported to measure Mattel's unjust enrichment, not any actual losses to MGA. ER491-511, 593-95, 610-14, 630-50, 655-670, 677-78.

[2] The court erroneously excluded these admissions as irrelevant and hearsay (ER675-76), even though they were statements by a party opponent, FED. R. EVID. 801(d)(2), and were relevant to MGA's claim that product information at toy fairs constituted trade secrets.

The "Top Down" Approach*:** Malackowski first testified to a damages measure using a "top down" approach that assumed that ***all 114 alleged trade secrets were misappropriated, opining that Mattel made an additional $149 to $202 million on its My Scene line, which competed with Bratz. ER491, 504-05, 510-11, 632-34. The top-down approach also assumed Mattel's liability for alleged misconduct other than trade-secret misappropriation—misconduct for which the district court later found Mattel not liable. ER501-02, 739.

***The "Bottom Up" Approach*:** As the district court commented, the "global calculation" used in the top-down analysis might be "'useless to the jury'" if "'the jury conclude[s] that [Mattel] did not misappropriate all of [MGA's] trade secrets'" (ER228 (quoting *O2 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.*, 399 F. Supp. 2d 1064, 1077 (N.D. Cal. 2005))), as the jury ultimately did conclude. Accordingly, Malackowski offered a second, "bottom up" approach that addressed particular trade secrets "item-by-item so that in the event . . . there was liability found as to some [claimed trade secrets] and not as to others," the jury could "separate them out." ER491, 594-95. Malackowski explained that his bottom-up approach was based on his analysis of the value of the "head start" Mattel received from its use of each trade secret during the time between its attendance at the toy fair and the date MGA brought its claimed trade secret to market. ER641-50, 667-70. Malackowski further explained that the bottom-up approach is a "very fact-

specific approach" (ER643) that depended upon his "product-by-product" comparisons (ER641) between each MGA Bratz doll for which a trade secret was claimed and a specific "matching" Mattel product (ER643).

Malackowski testified that he could determine Mattel's head-start benefits for only 26 of the 114 MGA Bratz dolls that MGA had asserted were trade secrets, based on a comparison to 26 "matching" Mattel products. ER610-11, 643-44, 647. Of these 26 supposed secrets, he testified that he had calculated actual head-start benefits for only 22, totaling $74.9 million, and had merely estimated the other four based on the average of the other 22, yielding an overall total of $88.5 million. ER643-44, 647. Malackowski never testified that any particular trade secret actually conferred $3.4 million in head-start benefits to Mattel, that that figure represented the actual average of the 26 products he identified, or that it was appropriate to apply that figure to any of MGA's 114 products other than the four he identified.

Of the 22 MGA trade secrets for which Malackowski calculated head-start benefits, he testified to his calculations only as to two: he testified that, after seeing Bratz Winter Wonderland at a toy fair, Mattel introduced its My Scene Chillin' Out doll sooner than it would have otherwise and thus gained $5.77 million in head-start benefits (ER644-45); and he testified that, after seeing Bratz Diamondz with a real gem at a toy fair, Mattel added a real gem to its My Scene

Bling Bling doll sooner than it would have otherwise and thus gained $16.39 million in head-start benefits (ER646-47).

Malackowski never testified as to any calculation of head-start damages amounts for the remaining 24 products. A chart on which he summarized his 22 calculations and four estimates was briefly displayed to the jury, but that chart was never admitted into evidence and the district court expressly instructed the jury not to consider any such charts. ER282 (Jury Instruction 21: "[C]harts and summaries . . . are not themselves evidence or proof of any facts."). During deliberations, the jury noted the absence of evidence, submitting Jury Note 7, which requested "any exhibit/tangible numbers" of MGA's claimed trade secrets, the identity of the Mattel product to which "we make the comparison," and the "release dates of both MGA and Mattel products." ER302. In response, the district court refused to provide the requested information and instructed the jury, over Mattel's objection (ER704), that "I've not instructed you to compare any of the claimed trade secrets . . . to any Mattel products" (ER303, 706).

D. The Jury Verdict

The jury returned a verdict in MGA's favor on April 21, 2011. ER252. The jury found against Mattel on ownership of the Bratz name, drawings and sculpt (ER253), and found against Mattel on its copyright claim (ER254).

As to MGA's trade-secret counterclaim the jury found that Mattel had willfully misappropriated 26 of 114 claimed trade secrets at toy fairs. The verdict form, at MGA's request, contained a chart with special interrogatories asking whether (1) MGA's product information was a trade secret; (2) Mattel misappropriated that secret; (3) Mattel used improper means to acquire that secret; and (4) the amount of damages, if any, for that secret. ER268, 458-59. Using the resulting chart, the jury found that 40 of the 114 were trade secrets, but that only 26 were (1) trade secrets (2) misappropriated (3) by improper means, (4) warranting damages. The jury found that each of those 26 entitled MGA to a uniform and identical sum of $3.4 million. ER268.

The 26 products on which the jury found liability and damages, listed with each product's number from the chart in Question 16 of the verdict form, were:

- (1) Bratz Mobile;
- (2) Bratz Styl' It Collection;
- (4) Bratz Winter Wonderland;
- (5) Bratz Formal Funk;
- (6) Bratz Runway Formal Funk;
- (7) Bratz FM Limo;
- (8) Bratz Motorcycle;
- (9) Bratz Petz Assortment;
- (14) Lil' Bratz Vehicle Assortment;
- (15) Lil' Bratz Deluxe Mall Playset;
- (16) Bratz Petz;
- (18) Dazzling Disco Café;
- (19) Sun Kissed Summer;
- (20 & 65) Girls Nite Out;
- (21) Wild Life Safari;

- (22) Bratz Diamondz;
- (24) Bratz Virtual Buddiez Petz;
- (27) Bratz Campfire;
- (28) Wild Wild West;
- (29) Bratz Rock Angelz;
- (41) Monkey See Monkey Do;
- (49) Lil' Bratz Boys;
- (58) AlienRacers;
- (66) Bratz Kidz; and
- (69) Passion for Fashion (ER268-74)

Various aspects of proof of unfair use and head-start benefits were missing for each of the jury's 26 products, including that:

- MGA introduced no products or images of (9) Bratz Petz Assortment or (18) Dazzling Disco Café;

- MGA introduced no testimony about (14) Lil' Bratz Vehicle Assortment, (15) Lil' Bratz Deluxe Mall Playset, or (18) Dazzlin' Disco Café);

- MGA introduced no evidence of any matching Mattel product for 17 of the 26 products: (1) Bratz Mobile, (2) Bratz Style It Collection, (5) Bratz Formal Funk, (7) Bratz FM Limo, (9) Bratz Petz Assortment, (14) Lil' Bratz Vehicle Assortment, (15) Lil' Bratz Deluxe Mall Playset, (18) Dazzling Disco Café, (19) Sun Kissed Summer, (21) Wild Life Safari, (24) Bratz Virtual Buddiez Petz, (27) Bratz Campfire, (28) Wild Wild West, (41) Monkey See Monkey Do, (49) Lil' Bratz Boys, (66) Bratz Kidz, or (69) Passion for Fashion;

- Of the remaining eight products for which an allegedly matching Mattel product was identified,

    - MGA introduced no evidence of release dates for (16) Bratz Petz or (58) AlienRacers;

    - Evidence showed that the alleged matching Mattel products for (6) Bratz Runway Formal Funk Collection and (20 & 65) Bratz

Girls Nite Out were released more than a year after the MGA products (ER372-74, 613-14, 677-78);

- Trade secrets from (22) Bratz Diamondz and (29) Bratz Rock Angelz had been published by the press at the time of the relevant toy fair (ER340, 343); and

- Mattel's product was facially dissimilar to MGA's for (29) Rock Angelz and (58) AlienRacers, or shared only a generic theme that Mattel had used for decades for (4) Winter Wonderland and (8) Motorcycle. *See* pp. 36-37 *infra*.

- Other than (4) Winter Wonderland, and (22) Bratz Diamondz, MGA's damages expert Malackowski did not testify to any head-start damages amounts;

- Malackowski excluded from the 26 products in his head-start analysis 11 of the 26 products on which the jury found liability and damages: (1) Bratz Mobile, (2) Bratz Style It Collection, (6) Bratz Runway Formal Funk Collection, (9) Bratz Petz Assortment, (21) Wild Life Safari, (24) Bratz Virtual Buddiez Petz, (41) Monkey See Monkey Do, (49) Lil' Bratz Boys, (58) AlienRacers, (66) Bratz Kidz, and (69) Passion for Fashion.

E. The District Court's Post-Trial Orders

On August 4, 2011, after oral argument, the district court issued three orders on the parties' post-trial motions:

***Denial of JMOL/NewTrial*:** The district court first issued an order denying Mattel's motion for judgment as a matter of law on MGA's trade-secret counterclaim (ER43-62), and denying Mattel's motion for new trial on that counterclaim except to the extent that the court remitted the jury's award from $88.5 to $85 million to correct the jury's mathematical error and duplicative award as to one product (20 & 65, Girls Night Out) (ER64). As to trade-secret liability,

the court reasoned that, even if the jury lacked sufficient evidence to find that MGA made "reasonable efforts to maintain secrecy on a trade secret-by-trade secret basis," the "rich evidentiary record provided a reasonable jury with sufficient grounds upon which to conclude that, ***as a general matter***, MGA made reasonable efforts to maintain the secrecy of the product information available in its toy fair showrooms," and that it was "reasonable for a jury to conclude that MGA protected information about ***all*** the products previewed at its toy fairs" if it showed that it protected information about ***any*** product. ER48-50 (emphasis added). The court found irrelevant the fact that some MGA products were located in toy fair showrooms never accessed by Mattel, stating that the same trade-secret misappropriation occurred whether Mattel obtained information from toy fairs or by "induc[ing] third parties, like retailers, to breach their obligations of confidentiality to MGA." ER59.[3]

As to trade-secret damages, the district court held that a reasonable jury could have found sufficient evidence to support its verdict of $3.4 million per trade secret any of five ways: the jury (1) "could have concluded that MGA suffered actual damage as a result of Mattel's misappropriation," even though MGA never

[3] In another order issued the same day, the court rejected Mattel's unclean hands defense based on MGA having done the same, ruling that it was *not* unlawful for MGA to request "information about its competitors' upcoming plans from retailers and licensees," which it deemed "legitimate sources" of such information. ER745-46.

advanced such a theory; (2) could have found unjust enrichment "extending beyond profits from the sale of toys" that matched MGA's products, even though MGA's damages expert treated matching products as crucial to his head-start damages calculations; (3) could have found sufficient evidence of 26 sets of matching products based on Larian's testimony of "coincidences" between eight sets of matching products, only six of which figured in the jury's damages verdict; (4) could have relied upon Malackowski's "top down" calculation that "Mattel obtained enhanced profits between $149 and $202 million," even though the court had earlier stated that such an analysis would be irrelevant if the jury, as here, found liability on fewer than all of the 114 claimed trade secrets; or (5) could have awarded $3.4 million per trade secret because "MGA's expert witness testified that Mattel generated approximately $3.4 million in profits from each instance of trade secret misappropriation," even though Malackowski gave no such testimony. ER60-63.

***Award of Exemplary Damages and CUTSA Fees*:** In a separate order, the district court ordered Mattel to pay MGA $85 million in CUTSA exemplary damages, CAL. CIV. CODE § 3426.3, despite finding that Mattel's "amateurish tactics" evoked "disappointment," not "a strong desire to punish"; was "silly, not evil"; and stopped long ago, obviating any "need for deterrence." ER36-38. The

court also awarded MGA $2.52 million in attorneys' fees and costs under CUTSA. ER42.

Award of Copyright Attorneys' Fees and Costs*:** The district court finally issued a separate order awarding MGA $105.6 million in attorneys' fees and $31.6 million in costs under Section 505 of the Copyright Act, 17 U.S.C. § 505. ER31. The court found that the fee award served the purposes of the Copyright Act even if Mattel's copyright claim was not objectively unreasonable and even though the prior district judge had entered equitable relief on that claim. ER 19-21. In arriving at these amounts, the court allowed MGA to submit 7,000 pages of attorneys' invoices with ***all their work descriptions blacked out (ER759, 831, 894) and declined to determine whether a less restrictive redaction was possible. ER22-25. The court also declined to explain why such a large fee award was justified when the discovery master (whose report was stricken) would have awarded only $84.7 million in fees (ER1423), when MGA had attacked its own attorneys' fees as excessive in separate litigation with them (ER889), and when MGA's own attorneys had testified that MGA was not paying their fees and never would (ER734-35, 737-38, 856-57). Nor did the court explain why it reduced the award of costs only for four discrete categories of excessive billings. ER30.

SUMMARY OF ARGUMENT

First, MGA's trade-secret misappropriation claim is time-barred because it accrued in 2004, more than three years before it was first asserted in August 2010. MGA pleaded, and the undisputed evidence establishes, that two former Mattel employees joined MGA in 2004 with knowledge of Mattel's toy fair conduct. The district court erred in holding the counterclaim timely, compulsory and relating back to Mattel's trade-secret claim, for the two sets of claims involved different trade secrets allegedly stolen at different times, in different places, by different actors, through different means.

Second, the trade-secret liability judgment should be reversed or vacated because MGA failed to prove on a trade-secret-by-trade-secret basis that the 26 products on which the jury found liability and damages were trade secrets, adducing at best only vague and general proof that MGA protected the secrecy of some of the products it displayed at toy fairs for publicity purposes.

Third, even if the judgment of trade-secret liability is upheld, the judgment of $85 million in trade-secret damages should be reversed or vacated because it is unsupported by the record. There is no basis in evidence on which a reasonable jury could have found identical, uniform damages of $3.4 million per trade secret for the particular 26 trade secrets on which it found both liability and damages using a special, product-by-product verdict form that MGA itself requested.

Fourth, the $85 million exemplary damages award should be reversed or vacated if the compensatory award is reversed or vacated, as should fees and costs.

Fifth, the award of an unprecedented $105.6 million in attorneys' fees and $31.6 million in costs for MGA's copyright defense should be reversed or vacated. Fees and costs should have not been shifted against Mattel for pursuing a copyright claim whose objective reasonableness is manifest from the fact that it prevailed before the first jury, resulted in substantial equitable relief from the first judge, and was remanded by this Court for retrial. In any event, the court abused its discretion in calculating the fee award by refusing Mattel access to the wholly redacted fee invoices, by declining to reduce the fee award by amounts that the discovery master and MGA itself deemed excessive, by failing to apportion properly as between fees attributable to MGA's copyright defense and those attributable to other claims, and by awarding MGA a windfall for amounts it would never pay its own lawyers—each an independently sufficient reason to vacate and remand for proper calculation. The court's award of excessive costs to MGA was likewise an abuse of discretion requiring vacatur.

STANDARD OF REVIEW

Statute of Limitations. Whether MGA's trade secrets claim is compulsory and relates back to Mattel's earlier pleading is a matter of law reviewed *de novo*. *Pochiro v. Prudential Ins. Co. of Am.*, 827 F.2d 1246, 1250 & n.6 (9th Cir. 1987).

Denial of JMOL/New Trial. The denial of a motion for judgment as a matter of law is reviewed *de novo*. *Lakeside-Scott v. Multnomah Cnty.*, 556 F.3d 797, 802 (9th Cir. 2009). Judgment is entered in favor of the appellant if the verdicts are not "supported by substantial evidence," *Pavao v. Pagay*, 307 F.3d 915, 918 (9th Cir. 2002), based on a review of the entire record, *Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150 (2000). Denial of a motion for new trial under Rule 59(a) is reviewed for abuse of discretion. *Molski v. M.J. Cable, Inc.*, 481 F.3d 724, 728 (9th Cir. 2007).

Attorneys' Fees and Costs. An award of fees and costs under Section 505 of the Copyright Act is reviewed for abuse of discretion except for errors of legal analysis or statutory interpretation, which are reviewed *de novo*. *Entm't Research Grp., Inc. v. Genesis Creative Grp., Inc.*, 122 F.3d 1211, 1216-17 (9th Cir. 1997). Because the judge "who fixed the fee came into the case after most of the legal services had been rendered," this Court has "somewhat more latitude in determining whether there has been an abuse of discretion." *Twentieth Century Fox Film Corp. v. Goldwyn*, 328 F.2d 190, 221 (9th Cir. 1964).

ARGUMENT

I. MGA'S TRADE-SECRET MISAPPROPRIATION CLAIM SHOULD HAVE BEEN DISMISSED AS UNTIMELY

The statute of limitations for misappropriation of trade secrets under CUTSA is three years. CAL. CIV. CODE § 3426.6 ("An action for misappropriation

must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered."); *see Cypress Semiconductor Corp. v. Superior Court*, 163 Cal. App. 4th 575, 586 (2008) (CUTSA discovery rule requires only that "plaintiffs have reason to at least suspect that a type of wrongdoing has injured them"). MGA did not file its trade-secret counterclaim until August 16, 2010. The toy fairs on which the jury based its verdict took place more than three years earlier, between 2001 and 2006. ER1131. MGA's own pleadings establish that MGA had reason to suspect injury from Mattel's toy-fair conduct more than three years earlier—indeed, no later than 2004. In April 2004, Larian hired Mattel employee Gustavo Machado (ER335, 447-48), who knew of Mattel's toy fair conduct before leaving for MGA (ER1132, 1434-63). And, in October 2004, Larian hired former Mattel employee Ron Brawer (ER600-01), who also was aware of such "practices" at Mattel (ER577-78, 602-04, 1134, 1475-86). MGA's trade-secret counterclaim was therefore clearly time-barred if it stood on its own.

The district court salvaged MGA's trade-secret counterclaim by finding it a ***compulsory*** counterclaim-in-reply that related back to Mattel's filing of its own trade-secret counterclaim in November 2006. ER234-37, 245-48. That finding

was legal error, because MGA's counterclaim was not compulsory.[4] A counterclaim-in-reply is compulsory only "if it arises out of the transaction or occurrence that is the subject matter of the defendant's counterclaim." *Davis & Cox v. Summa Corp.*, 751 F.2d 1507, 1525 (9th Cir. 1985) (citing Fed. R. Civ. P. 13(a)), *superseded by statute on other grounds*, 28 U.S.C. § 1961. This requires that "the same operative facts serve as the basis of both claims." *In re Lazar*, 237 F.3d 967, 979 (9th Cir. 2001). Two claims arise from the same transaction where the "[e]ssential facts alleged by [the plaintiff] enter into and constitute in part the cause of action set forth in the counterclaim." *Moore v. New York Cotton Exch.*, 270 U.S. 593, 610 (1926). The mere fact that two claims embrace the "same general subject matter" is not enough to make a counterclaim compulsory. *In re Pegasus Gold Corp.*, 394 F.3d 1189, 1196 (9th Cir. 2005); *see Valley View Angus Ranch, Inc. v. Duke Energy Field Servs., Inc.*, 497 F.3d 1096, 1105 (10th Cir. 2007); *Nat'l Mach. Co. v. Waterbury Farrel Foundry & Mach. Co.*, 290 F.2d 527, 528 (2d Cir. 1961).

Assessed under the correct standard, MGA's counterclaim-in-reply does not arise from the same transaction, occurrence or essential facts as Mattel's trade-secret counterclaim:

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[4] Permissive counterclaims-in-reply do not relate back to the counterclaims to which they respond. ER245; *see Employers Ins. of Wausau v. United States*, 764 F.2d 1572, 1576 (Fed. Cir. 1985).

- Mattel alleged that, in 2000, 2004 and 2005, Bryant, Machado, Brawer and others stole and gave to MGA (their new employer) Mattel trade secrets they acquired as Mattel employees and fiduciaries. ER1353-65;

- By contrast, MGA alleged that, from 1999 to 2006, Mattel employees stole MGA trade secrets they acquired at toy fairs by disguising their true identities as MGA's competitors. ER1151-53.

The two sets of claims thus alleged different kinds of trade-secret thefts, at different times and in different places, of different information, by employees with a different relationship to that information. While MGA's counterclaim-in-reply focuses solely on alleged secrets acquired at toy fairs by a competitor, Mattel's trade-secret counterclaim does not involve toy fairs and raises questions about the theft of internal secrets by its own employees. These differences should have been dispositive. *See Conceptus, Inc. v. Hologic, Inc.*, 2010 WL 1460162, at *1 (N.D. Cal. April 12, 2010) (Alsup, J.) (holding that, where the parties accused each other of misrepresenting clinical data, the fact that different people and different data were involved meant that a counterclaim was not compulsory); *see generally* 6 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FED. PRAC. & PROC. CIV. § 1410 (explaining that "even the most liberal construction of [the 'transaction or occurrence' requirement] cannot operate to make a counterclaim that arises out of an entirely different or independent transaction or occurrence compulsory under Rule 13(a)").

To fashion some connection between Mattel's and MGA's very different trade-secret claims, the district court hypothesized that "*at least* some of the trade secret information allegedly misappropriated by Machado and Brawer" from Mattel to MGA might have "incorporated trade secret information obtained by Mattel's market intelligence group" from MGA at toy fairs. ER236 (emphasis in original). But it is absurd to suggest MGA would use Machado and Brawer to misappropriate its ***own*** trade secrets from Mattel, and the pleadings say no such thing, as the district court acknowledged (ER236-37 ("MGA does ***not*** expressly allege that Machado and/or Brawer brought market intelligence group information to MGA from Mattel") (emphasis added)). The court nonetheless suggested that "more discovery into the identity of the documents and information allegedly obtained from MGA's showrooms" might somehow reveal a connection that MGA's counterclaim admittedly failed to plead. ER236-37. This was error, for no authority supports finding a counterclaim compulsory based on inferences about what discovery might show beyond the parties' own allegations.

Moreover, discovery in fact failed to yield any connection or overlap between Mattel's and MGA's trade-secret claims. To the contrary, of the 114 specific trade secrets MGA identified in its interrogatory responses (ER1492-95), Mattel never claimed any as its own trade secret.

Because MGA's trade secret claim as pleaded was not compulsory, it did not relate back to Mattel's 2006 claim. Standing on its own, MGA's August 2010 filing was untimely. Accordingly, judgment should be entered for Mattel on MGA's trade-secret counterclaim. *See First Nat'l Mortg. Co. v. Fed. Realty Inv. Trust*, 631 F.3d 1058, 1064 (9th Cir. 2011) (denial of summary judgment subject to reversal "'where the district court made an error of law that, if not made, would have required the district court to grant the motion'") (quoting *F.B.T. Prods., LLC v. Aftermath Records*, 621 F.3d 958, 963 (9th Cir. 2010)).

II. THE JUDGMENT OF TRADE-SECRET LIABILITY SHOULD BE REVERSED OR VACATED

Under California law, "trade secret" means information "that: (1) [d]erives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) [i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy." CAL. CIV. CODE § 3426.1. To prevail on a trade-secret misappropriation claim, a plaintiff must prove "(1) possession by the plaintiff of a trade secret; (2) the defendant's misappropriation of the trade secret, meaning its wrongful acquisition, disclosure, or use; and (3) resulting or threatened injury to the plaintiff." *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210, 220 (2010), *rev'd in part on other grounds*, 51 Cal. 4th 310 (1998).

The evidence was insufficient to support the jury's verdict that each of the 26 products on which it found liability and damages was a trade secret. The district court sustained the liability verdicts based on MGA's "***general*** proof" that it made reasonable efforts to protect its products' secrecy at toy fairs (ER50 (emphasis added)), holding that toy-fair-by-toy-fair, trade-secret-by-trade-secret analysis was not required. This was error, for the evidence fails to support a finding that MGA protected all its trade secrets the same way at every toy fair, and thus, even taken in the light most favorable to the verdict, did not entitle the jury to conclude that if ***any*** product was a trade secret, ***all*** of them were.

First, MGA admitted it "use[d] press as a vehicle" at toy fairs, and could not identify which of the 26 products, if any, it protected from the press. ER521, 549, 586-89, 688-89; *see* ER1063-65. *Second*, undisputed evidence showed that 12 of the 26 products on which the jury found liability were publicly disclosed in press releases or reports before or during the toy fairs at which Mattel supposedly obtained illicit access to them, negating the necessary showing that MGA had made reasonable efforts to protect their secrecy. ER339-41, 343, 348-50, 353, 357-58; *see* 521, 586-89, 688-92. *Third*, MGA showed that some products were placed in "separate room[s] completely locked," but produced no evidence to show that any of the 26 products was among them. ER530. *Fourth*, MGA showed that visitors to the 2005 Hong Kong toy fair were asked to sign a non-disclosure

agreement (ER379), but produced no evidence that any of the 26 products was shown at that toy fair or that visitors were required to sign non-disclosure agreements at any other toy fair where any of the 26 products was shown. *Fifth*, MGA's own admissions established that it assumed the risk that any and all of its trade secrets would be publicly disseminated, as it shared its claimed trade-secret information with retailers, knowing that retailers share such information with MGA's competitors. ER342, 531, 558-60, 565, 1055-62, 1067-69.[5] *Sixth*, the jury itself found that most of the claimed secret products in MGA's showrooms were not trade secrets at all, and there is no evidence that MGA protected or valued the 26 products the jury found were misappropriated to any greater extent than the non-trade secret products displayed at the same toy fairs.

Where evidence in a trade-secret misappropriation case shows that some product information was kept secret but other product information was not, the plaintiff must establish that the particular information on which liability is found was on the secret side of the ledger. *See Sw. Stainless, LP v. Sappington*, 582 F.3d 1176, 1190 (10th Cir. 2009) (reversing trade-secret misappropriation judgment and

[5] The district court relied on *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 486 (1974), to conclude that "[s]haring information with third parties for commercial purposes does not necessarily eviscerate the trade secret status." ER47. But the disclosures in *Kewanee Oil* were to licensees who were under a "binding legal obligation to pay a license fee or to protect the secret," 416 U.S. at 470, and thus are not comparable to MGA's disclosures to the press or to retailers with no expectation of secrecy.

directing entry of judgment for defendants where evidence failed to show that specific pricing information at issue was protected) (applying Oklahoma law similar to CUTSA); *see also Buffets, Inc. v. Klinke*, 73 F.3d 965, 969-70 (9th Cir. 1996) (affirming post-trial judgment dismissing trade-secret claim where evidence of general measures to protect secrecy of information was insufficient to prove trade-secret status) (applying Washington law similar to CUTSA). Here MGA failed to do so.

There is therefore no evidence from which a rational jury could have concluded that all 26 products for which the jury found liability were protectable as trade secrets. Judgment should be entered for Mattel, or at a minimum, the judgment should be vacated and remanded for new trial.

III. THE JUDGMENT OF $85 MILLION IN TRADE-SECRET DAMAGES SHOULD BE REVERSED OR VACATED

An award of damages may not rest on "speculation or guesswork," *In re First Alliance Mortg. Co.*, 471 F.3d 977, 1001 (9th Cir. 2006), but rather must be supported by "competent evidence," *Central Office Tel., Inc. v. Am. Tel. & Tel. Co.*, 108 F.3d 981 (9th Cir. 1997), *rev'd on other grounds*, 524 U.S. 214 (1998), in the record, *see In re Wolverton Assocs.*, 909 F.2d 1286, 1296 (9th Cir. 1990). Here, there is no basis in the record other than improper "speculation or guesswork" for the jury's award of an identical $3.4 million in damages for each of the 26 trade secrets on which it found liability.

The only damages theory MGA presented at trial was unjust enrichment to Mattel; MGA introduced no evidence it suffered any actual loss. Unjust enrichment, by definition, requires use. *See Ajaxo Inc. v. E*Trade Fin. Corp.*, 187 Cal. App. 4th 1295, 1310 (2010) (unjust enrichment is unavailable where "a defendant has either not utilized the stolen secret commercially or has not benefitted in any way that can be measured in monetary terms"); *see also Unilogic, Inc. v. Burroughs Corp.*, 10 Cal. App. 4th 612, 625-28 (1992) (finding insufficient evidence of unjust enrichment, and affirming grant of non-suit, where defendant never brought product bearing trade secret to market). But the evidence fails to support MGA's sole theory of use, which was that Mattel had obtained a head-start competitive advantage by seeing unreleased MGA products at toy fairs and changing its designs or release dates of specific matching Mattel products in response. Nor does the record support the jury's finding that such supposed use enriched Mattel in the identical amount of ***$3.4 million*** per trade secret.

A. The Evidence Does Not Support A Finding Of Any Use Conferring Unjust Enrichment

"To sustain a trade secrets action under the 'use' prong of the statutory definition of 'misappropriation,' a plaintiff must necessarily demonstrate that the defendant received some sort of ***unfair*** trade advantage," *JustMed, Inc. v. Byce*, 600 F.3d 1118, 1130 (9th Cir. 2010)) (quotation omitted) (emphasis added), as distinct from simply engaging in legitimate competition. "Use" under CUTSA

occurs only when ***secret*** information is employed "in manufacturing, production, research or development, marketing goods that embody the trade secret, or soliciting customers through the use of trade secret information," *PMC, Inc. v. Kadisha*, 78 Cal. App. 4th 1368, 1383 (2000), or incorporated "into his own manufacturing technique or product," *Silvaco*, 184 Cal. App. 4th at 224.

MGA therefore bore the burden of proving that Mattel used its product information ***while that information was still secret***. The very "point of the 'head start' period is that, once the defendant has discovered, or would have discovered, the trade secret without the misappropriation, any lost profits from that time forward are not caused by the defendant's wrongful act." *Sokol Crystal Prods., Inc. v. DSC Commc'ns Corp.*, 15 F.3d 1427, 1433 (7th Cir. 1994). MGA thus was not entitled to any damages from use by others ***after*** it disclosed its trade secrets; to hold otherwise would penalize legitimate competition and conflict with federal law protecting information in the public domain. *See Kewanee Oil*, 416 U.S. at 484 ("by definition a trade secret has not been placed in the public domain"); *cf. Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 149 (1989) ("Once an inventor has decided to lift the veil of secrecy from his work, he must choose the protection of a federal patent or the dedication of his idea to the public at large.").

Under these clear standards, the evidence is insufficient to establish Mattel's unfair use of any of the 26 trade secrets the jury selected. *First*, the jury's list of 26

products did not match the list of 26 products on which MGA's damages expert Malackowski testified he had found head-start damages; the jury may have tried to replicate his 26-product list but failed, for he found no evidence of head-start damages on fully 11 of the 26 products the jury chose. *See* p. 18 *supra*. The effort to come up with 26 products, but the wrong products, suggests that the jury award rested on pure speculation or guesswork.

Second, as Malackowski himself explained, calculation of head-start damages requires proof of a matching Mattel product. But as to 17 of the 26 products the jury selected, there was no evidence of any matching Mattel product. *See* p. 17 *supra*. Indeed, the district court expressly prevented the jury from comparing MGA products to matching Mattel products, denying the jury's request in Jury Note 7 to know the "exhibit/tangible numbers" of MGA's trade secret products and "to what Mattel product do we make the comparison?" (ER302), and instructing the jury that it should ***not*** make such product-by-product comparisons (ER303, 706).

Third, Malackowski's calculation of head-start damages depended on comparing release dates for each MGA product with release dates for Mattel's matching product. But once again, the district court expressly denied the jury's request during deliberations to know the "release dates of both MGA and Mattel products." ER304, 706. And as to the eight MGA products where MGA did

identify a matching Mattel product (ER533-44, 644-47, 655-56), the evidence affirmatively negated any inference of Mattel's use of MGA's product during a "head-start" period. Specifically:

Bratz Winter Wonderland: MGA claimed Mattel used advance knowledge of this product in its supposedly matching My Scene Chillin' Out product. But Mattel has used generic winter themes since at least 1963 (ER361, 363, 365, 367 369), and Mattel did not use the "fur handle for the package" that MGA identified as unique and protectable (ER376, 378, 453, 533).

Bratz Runway Formal Funk Collection: MGA claimed Mattel used this product in its allegedly matching My Scene Sound Lounge product, but MGA's own damages expert concluded that Mattel obtained no "head start" benefits from using this product information while it was still secret. ER613-14, 677-78.

Bratz Motorcycle: MGA claimed Mattel copied the "motorcycle theme" of its product in Mattel's My Scene Vespa product. ER537-38. But the products share only a generic two-wheeled vehicle theme that Mattel has used since at least 1978. ER371, 383-84.

Bratz Petz: MGA claimed Mattel used its animal-themed product in its allegedly matching My Scene Pets product. But MGA publicly disclosed that Bratz Petz was animal-themed before the relevant toy fair. ER348.

Bratz Girls Nite Out: MGA claimed Mattel "used" this product in its allegedly matching My Scene Day and Nite product. But MGA had publicized the product by the time of the relevant toy fair (ER348, 358), and in any event Mattel's product release was a full year after MGA's (ER372-74).

Bratz Diamondz: MGA claimed Mattel mimicked this product by adding "real jewelry stones" to its My Scene Bling Bling product. ER543-44. But MGA publicly disclosed that it would include a "real diamond chip" in its product before the toy fair where it was displayed. ER343, 550-52.

Bratz Rock Angelz: MGA claimed Mattel used this product in its supposedly matching My Scene Goes Hollywood product. But MGA publicized this product by the time of the relevant toy fair (ER340), and the products are in any event dissimilar, thus belying any unfair use (*compare* ER375 *with* ER377).

AlienRacers: MGA claimed that Mattel used the name of this product when Mattel changed the name of a Hot Wheels product to Acceleracers. ER541. But MGA had disclosed that name, and other product attributes, in a pre-toy fair press release (ER349), there was no evidence of the release date of either product, and the products are dissimilar (*compare* ER382 *with* ER381).

Thus, the evidence of head-start use was insufficient as to all 26 products. Recognizing this, the district court hypothesized that product "matching" was not "the only vehicle for unjust enrichment." ER61. But MGA adduced no evidence

that Mattel used information about the 26 products in any other manner. For example, contrary to the district court's suggestion that Mattel might have used pricing and advertising information about the MGA products to unfair advantage (ER60-61), the record contains no evidence that Mattel used such information for any of the 26 products on which the jury found liability and damages, or of the amount Mattel was enriched by such use.

B. The Evidence Does Not Support A Finding Of Unjust Enrichment In the Amount Of $3.4 Million Per Product

Even if the evidence supported MGA's theory of use, it cannot support the jury's finding that use of each of the 26 products warranted an identical $3.4 million in damages.

First, contrary to the district court's erroneous suggestion, Malackowski did ***not*** "testif[y] that Mattel generated approximately $3.4 million in profits from each instance of trade secret misappropriation." ER63. To the contrary, Malackowski testified that he had found specific and varying head-start amounts for 22 products, none of which he calculated to be $3.4 million, and he testified as to only two of those amounts: $5.77 million from supposed mimicry of Bratz Winter Wonderland, and $16.39 million from supposed mimicry of Bratz Diamondz. *See* pp. 14-15 *supra*.

Second, even if the district court was assuming that $3.4 million was some kind of crude average approximation of head-start benefits to Mattel, the evidence

does not support any such average for the 26 products on which the jury found liability and damages. To the contrary, while $3.4 million was the average amount Malackowski calculated for 22 of the 26 products on his "bottom up" damages chart, that chart was never admitted into evidence, and the district court expressly instructed the jury not to consider it. ER282. Moreover, even if the chart had been considered by the jury, $3.4 million was not the average for the ***jury's*** 26 products, because the ***jury's*** 26 products were not the same as ***Malackowski's*** 26 products—the jury included 11 MGA products as to which Malackowski never formed any head-start opinions and that were not on his chart. Juries might be permitted to use crude averages in some circumstances, but such extrapolation is foreclosed here by Malackowski's own repeated testimony that his head-start damages calculations were "very fact-specific" and based on particular "product-to-product" comparisons. *See* pp. 13-14 *supra*.

Third, the district court erred in suggesting that, even if Malackowski's bottom-up analysis was insufficient to support the awards of $3.4 million per trade secret, his top-down analysis could somehow support those awards. ER62. To begin with, the top-down approach expressly assumed that Mattel was liable for misappropriating ***all 114*** of MGA's claimed trade secrets (ER511; *see* ER491-92, 504-05), and thus, in the district court's own words, "was useless to the jury" after

the jury found misappropriation of ***only 26 of 114*** claimed trade secrets. ER228-29.

Moreover, the numbers in Malackowski's top-down analysis cannot support a $3.4 million average damages figure. The top-down analysis concluded that Mattel's My Scene line was enriched in the amount of $149 to $202 million. Had the jury found liability for ***all 114*** asserted products and prorated those amounts equally among each of the 114 products, it would have arrived at average damage awards of ***$1.3 to $1.8 million, not $3.4 million***. Put another way, if the jury had awarded $3.4 million per trade secret for all 114 trade secrets, it would have awarded ***$387.6 million***, or nearly twice the amount ($202 million) at the very high end of Malackowski's top-down range. Such a sum would have been $40 million greater than the evidence of Mattel's profits from ***the entire My Scene line***, which totaled ***$348 million***. ER498, 636. The top-down approach also assumed liability for alleged bad acts other than trade-secret misappropriation for which the district court expressly found Mattel not liable. ER501-02, 739.

Fourth, the district court erred in suggesting that "a reasonable jury could have concluded that MGA suffered ***actual damages*** as a result of Mattel's misappropriation, separate and apart from any unjust enrichment by Mattel." ER60 (emphasis added). To the contrary, MGA introduced no evidence whatsoever as to any actual damages it might have sustained, and pursued its

damages case based solely on Mattel's supposed unjust enrichment. While the district court cited Larian's self-serving testimony that a competitor's use of its trade secrets ***could*** ultimately "financially hurt" MGA, that testimony was entirely hypothetical. ER61.

Finally, the district court's suggestion that Mattel might have "used" advance knowledge of MGA's pricing or advertising plans cannot support the damages awards. ER61. Malackowski calculated "bottom up" damages as Mattel's entire profits for periods in which advance knowledge of MGA's designs supposedly allowed Mattel to design and market new products. MGA gave the jury no evidence or theory about how to quantify any (far more modest) unjust enrichment that might arise from tweaks by Mattel to its pricing or advertising plans for existing products.

In sum, by accepting a uniform average unjust enrichment amount of $3.4 million per trade secret, the district court failed to distinguish between "damages attributable to lawful competition and . . . attributable to the unlawful scheme." *Farley Transp. Co., Inc. v. Santa Fe Trail Transp. Co.*, 786 F.2d 1342, 1350-1352 (9th Cir. 1985) (finding error not to segregate), *superseded on other grounds*, 103 F.3d 868 (9th Cir. 1996); *cf. City of Vernon v. S. Cal. Edison Co.*, 955 F.2d 1361, 1372 (9th Cir. 1992) (evidence insufficient where expert "failed to segregate the losses, if any, caused by acts which were not antitrust violations from those that

were"). Accordingly, a judgment of no damages should be entered for Mattel on MGA's trade-secret misappropriation claim. *See O2 Micro*, 399 F. Supp. 2d at 1077 (granting judgment as a matter of law rejecting unjust enrichment damages); *Central Office Tel.*, 108 F.3d at 993 (entering judgment on reduced damages award where "there was no competent evidence" to support full award of damages). At a minimum, this Court should vacate and remand the trade-secret damages award for a new trial limited to a determination of any damages on the 26 trade secrets on which the jury found liability.

IV. THE AWARD OF $85 MILLION IN EXEMPLARY DAMAGES AND $2.52 MILLION IN CUTSA FEES AND COSTS SHOULD BE REVERSED OR VACATED

CUTSA makes exemplary damages expressly dependent upon an award of compensatory damages. *See* CAL. CIV. CODE § 3426.3(c) (the court may award exemplary damages only "in an amount not exceeding twice any award" of actual loss or unjust enrichment and only if the misappropriation is found to be "willful and malicious"). The district court concluded that Mattel's conduct, which it found "was silly, not evil," "diminished in 2005," and did not "evoke a strong desire to punish," should "not be punished by the largest exemplary damage award available," but instead in "an amount equal to the remitted compensatory damage award." ER36-38. If the underlying $85 million unjust enrichment award is reversed or vacated, the district court's award of $85 million in exemplary

damages should also be reversed or vacated. Likewise, if the underlying trade-secret verdicts are reversed or vacated, then the court's award of $2.52 million in CUTSA fees and costs must be as well. *See* CAL. CIV. CODE § 3426.4 (providing for award of "reasonable attorney's fees and costs to the prevailing party").

V. THE AWARD OF $137.2 MILLION IN ATTORNEYS' FEES AND COSTS UNDER THE COPYRIGHT ACT SHOULD BE REVERSED OR VACATED

Under 17 U.S.C. § 505, "the court in its discretion may allow the recovery of full costs by or against any party," and "the court may also award a reasonable attorney's fee to the prevailing party as part of the costs." Here, the district court exercised that discretion by awarding the jaw-dropping sums of ***$105.6 million*** in attorneys fees and ***$31.6 million*** in costs for MGA's defense against Mattel's copyright claim. Mattel knows of no copyright fee and cost award that was similarly shifted on a claim that had been successful before one jury, had resulted in substantial relief from a federal district judge, and was remanded by a court of appeals before being unsuccessful before a second jury. Nor is Mattel aware of any copyright fee and cost award of similar magnitude. The district court offered no persuasive reason why shifting fees and costs in such circumstances serves the purposes of the Copyright Act. The fee and cost awards should be reversed, or alternatively vacated for recalculation.

A. The District Court Erred In Shifting MGA's Attorneys' Fees And Costs To Mattel

This Court has required that a decision to shift copyright fees and costs consider "frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1120 (9th Cir. 2007); *see Ets-Hokin v. Skyy Spirits, Inc.*, 323 F.3d 763, 766 (9th Cir. 2003) (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n. 19 (1994)). These factors are reviewed not in hindsight but rather based on the facts and law at the time the claim was first asserted. *Christiansburg Garment Co. v. EEOC*, 434 U.S. 412, 421-22 (1978).

The most critical of these factors is objective reasonableness. "[T]he imposition of a fee award against a copyright holder with an objectively reasonable litigation position will generally not promote the purposes of the Copyright Act." *Matthew Bender & Co., Inc. v. West Publ'g. Co.*, 240 F.3d 116, 122-23 (2d Cir. 2001) (vacating fee award), *after remand* 41 F. App'x 507, 510 (2d Cir. 2002) (reversing fee award); *see Fogerty v. MGM Grp. Holdings Corp., Inc.*, 379 F.3d 348, 357 (6th Cir. 2004) (reversing where court erred in finding a copyright claim objectively unreasonable); *Mitek Holdings, Inc. v. Arce Eng'g Co.*, 198 F.3d 840, 842 (11th Cir. 1999) (vacating fee award); NIMMER ON COPYRIGHT § 14.10[D][3][b] ("appellate courts reverse when they disagree with the district

court's finding that plaintiff's claim was objectively unreasonable").[6] That a copyright claim achieves some success, even if ultimately unsuccessful, militates against an award of fees. *Smith v. Jackson*, 84 F.3d 1213, 1221 (9th Cir. 1996).

The district court made no finding that Mattel's copyright claim was frivolous or objectively unreasonable, opining simply that the specific factors applied by this Court are "no longer required." ER22. This ruling was itself error. *See Magnuson v. Video Yesteryear*, 85 F.3d 1424, 1432 (9th Cir. 1996) (remanding "[b]ecause it is not apparent from the district court's decision that it considered the factors listed in *Fogerty*"). In any event, no finding of unreasonableness was possible in this case, where (1) the jury and district court in the first trial found in Mattel's favor on its claim to ownership of Bryant's Bratz designs and sculpt and its claim that MGA infringed its copyright in those inventions (*see* ER1270-72, 1285-88, 1293); (2) these claims survived summary judgment in both trials (*see* ER76-79, 1281, 1285-88, 1304); and (3) this Court remanded on both issues in the first appeal, stating expressly that Mattel might prevail on them at retrial, *see Mattel*, 616 F.3d at 913 ("Mattel might well convince a properly instructed jury" of its ownership claim); *id.* at 911-12 (the jury's interpretation of Bryant's contract with Mattel "could easily" support Mattel's Bratz copyright claim as well as properly defined equitable relief).

[6] *See also Halicki Films, LLC v. Sanderson Sales & Mkg.*, 547 F.3d 1213, 1231 (9th Cir. 2008) (affirming denial of fees where claims were reasonable).

While reasonable juries might differ on Mattel's claims (and did so), and this Court found that the federal judge in the first trial had made mistakes, Mattel's copyright claim cannot on this record possibly justify the largest copyright fee award in history. The fact that a federal judge entered equitable relief on Mattel's copyright claim in the first trial weighs strongly against a finding that it was unreasonable for Mattel to bring that claim, even though that relief was vacated. *See Sanchez v. City of Santa Ana*, 936 F.2d 1027, 1041 (9th Cir. 1990) ("Logic and fairness dictate that where two judges disagree, attorney's fees should not be awarded en gross for bringing a frivolous case."). This Court expressly indicated in its opinion in the first appeal that equitable relief might well be appropriate on remand, and nowhere suggested that fee-shifting would be appropriate if Mattel sought that relief again.

Unable to deem Mattel's copyright claim unreasonable, the district court instead faulted Mattel's pursuit of "grossly overbroad monetary and injunctive relief." ER21. But copyright fee shifting has never turned on the magnitude of relief sought or obtained. *See Wall Data Inc. v. Los Angeles Cnty. Sheriff's Dept.*, 447 F.3d 769, 787 (9th Cir. 2006) (plaintiff is prevailing party "'even if the damages awarded are nominal or nothing'") (quoting NIMMER ON COPYRIGHT § 14.10[B]).

In any event, Mattel's request for relief was reasonable. The evidence showed that Bryant's Bratz sculpt was "the final prototype sculpt of the Bratz" (ER479-80), and that that sculpt is at the core of virtually every Bratz doll ever sold by MGA (ER401-03, 453-54). The district court ruled, following this Court's prior opinion, that a jury *could* find that "MGA's Bratz Production Sculpt . . . infringed Bryant's sculpt." ER82. The district court confirmed mid-trial that Mattel could pursue a claim that "(1) the Bratz production sculpt infringes the Bryant sculpt; (2) many dolls incorporate the Bratz production sculpt; and (3) some portion of the profit generated from sales of those dolls is attributable to the sculpt infringement." ER67. The court's subsequent ruling in its fee award that "all but six Bratz dolls did not infringe the concept sketches and sculpts" (ER18) is inconsistent with its ruling that the production sculpt used in many dolls other than the six specified dolls may be infringing (ER67). The court also found that MGA's defense secured public access to Bratz (ER19), but did not consider the evidence that Mattel would have made Bratz (*see* ER1265). Nor did Mattel seek a "restriction on every other prospective doll designer" (ER18-19); it sought to enjoin only MGA (ER1267).

Just as the district court cannot justify fee-shifting on the ground that Mattel's copyright claim was unreasonable, it cannot justify fee-shifting on the ground that MGA's copyright defense "further[ed] the purposes of the Copyright

Act." ER17. Before this Court decided the first appeal, the copyright issues in this case relevant to "free expression" and "competition" were unsettled—not "ignored" by Mattel as found by the district court—and thus their defense did not merit fees. ER19, 22; *see Murray Hill Publ'ns, Inc. v. ABC Commc'ns, Inc.*, 264 F.3d 622, 639-40 (6th Cir. 2001) (reversing copyright fee award because claim was reasonable and "the law on certain relevant aspects of this lawsuit was unsettled"). And MGA's defense of Mattel's copyright claim on remand turned largely on fact-bound, state-law issues of contract interpretation limited to Mattel's own Inventions Agreement with Bryant, not broad "principles about the unprotectability of ideas." ER22. Indeed, a large part of the relief vacated by this Court's ruling in the first appeal concerned the constructive trust imposed solely as an equitable remedy for three of Mattel's state-law claims, not its copyright claim.

For all these reasons, fees and costs should not have been shifted to Mattel.

B. The District Court Abused Its Discretion In Awarding $105.6 Million In Copyright Attorneys' Fees

Even if fee-shifting were proper here, the bloated $105.6 million fee award issued by the district court should be vacated. The court's process was fundamentally flawed and its calculations were in error.

1. Redaction Of Fee Invoices

When submitting a fee request, "counsel bears the burden of submitting detailed time records justifying the hours claimed to have been expended."

Chalmers v. City of Los Angeles, 796 F.2d 1205, 1210 (9th Cir. 1986). MGA did just the opposite here. It submitted more than 7,000 pages of attorney invoices with its fees request, but redacted virtually every work description in those pages, leaving the work its attorneys performed impossible to discern. *E.g.*, ER768-830, 835-42, 909-1015. The record shows page after page covered in black with nothing more than the date and the number of hours revealed.

Permitting MGA to so redact its invoices was error. Mattel had both a "right" and "need" to "peruse and parse [MGA's] fee demand," was "entitle[d] to see just what was charged and why," and was not required to "take [MGA's] word that every hour was needed and all overlap had been eliminated." *Intel Corp. v. Terabyte Int'l, Inc.*, 6 F.3d 614, 623 (9th Cir. 1993); *see United States v. $1,379,879.09 Seized From Bank of America*, 374 Fed. App'x 709, 711 (9th Cir. 2010) (vacating fee award even where district court reviewed unredacted invoices *in camera*, because fee opponent "must have access to the billing records underlying the fee request, including the specific descriptions of services rendered"); *MGIC Indem. Corp. v. Weisman*, 803 F.2d 500, 505 (9th Cir. 1986); *see also Pamida, Inc. v. E.S. Originals, Inc.*, 281 F.3d 726, 732 (8th Cir. 2002) (filing of indemnification action seeking legal fees resulted in implied waiver of privilege); *Ideal Elec. Sec. Co., Inc. v. Int'l Fidelity Ins. Co.*, 129 F.3d 143, 152 (D.C. Cir. 1997).

While the district court acknowledged that Mattel's request to review MGA's invoices in unredacted form was "legally sound" (ER23), and MGA offered to examine "the time entries for those fees awarded to determine whether a less restrictive redaction is possible" (ER861), the district court declined to order MGA to produce unredacted invoices for Mattel's review. Each of its reasons was in error.

First, the court erred in suggesting that Mattel waived any challenge to the reasonableness of the fee request. ER23-24, citing ER711-12. To the contrary, Mattel argued vigorously that MGA's wholesale redactions "[gave] the Court no basis 'to accept [MGA's] representations that the costs and fees are reasonable.'" ER870 (quoting *EOS GMBH Electro Optical Sys. v. DTM Corp.*, 2002 WL 34536678, at *4-5 (C.D. Cal. Mar. 18, 2002)). And Mattel consistently argued that the fees MGA sought were unreasonably excessive and duplicative,[7] opting only to forego any challenge to the reasonableness of the hourly rates charged or to specify a maximum fee. ER751, 844-45.

Second, the court erred in suggesting that it was possible, with all work descriptions blacked out, to apportion between fees for MGA's defense of Mattel's

[7] Although MGA's blanket redactions make a comprehensive itemization impossible, examples abound of facially unreasonable fees which were shifted in full. *See*, *e.g.*, ER1011-13 (only three pages of 133-page fee invoice provided); ER945-1015 (charges listed on invoices with handwritten adjustments, question marks, interlineations, and comments including "vague," "dupe entry," and "mistake; not MGA related"); ER942 (a $100,000 "success fee").

copyright claim and legal work on the two dozen other claims in this case.[8] To the contrary, work descriptions are essential to apportioning fees among claims. *See Entm't Research Grp.*, 122 F.3d at 1230 (vacating copyright fee award where district court barred fee opponent from seeing original time records and billing statements in order to assess apportionment).[9]

Third, the district court erred in stating that additional "information relevant to apportionment . . . is covered by the attorney-client privilege and the work product doctrine." ER24. The general rule is the opposite: attorney invoices, including descriptions of "the general purpose of the work performed," are "usually *not* protected from disclosure by the attorney-client privilege." *Clarke v. Am. Commerce Nat'l Bank*, 974 F.2d 127, 129 (9th Cir. 1992) (emphasis added); *United States v. Amlani*, 169 F.3d 1189, 1194 (9th Cir. 1999). Billing records may be redacted, if at all, only when "absolutely necessary" to preserve a claim of

[8] Mattel brought trade-secret claims alleging thefts of non-Bratz information from three different countries; claims relating to MGA's financial relationships with creditors; claims alleging fraudulent distributions to MGA's shareholders; and claims relating to MGA's use of Mattel employees other than Bryant to work on Bratz. MGA brought seven claims of its own, including Lanham Act, RICO and unfair competition claims. ER177, 305, 1159.

[9] The court stated that Mattel had adequate information to challenge apportionment because the redacted invoices "identif[ied] the number of hours each attorney dedicated to the case on a monthly basis" and "categorize[d] attorney hours between time spent on MGA's affirmative claims and time spent on MGA's defense against Mattel's claims." ER23. But such general information is plainly insufficient to assess which hours worked were affirmative or defensive or to distinguish among hours spent on defenses to various claims.

privilege. *$1,379,879.09 Seized*, 374 F. App'x at 711; *see Pamida*, 281 F.3d at 732 (invoking fairness to require waiver of any applicable privilege); *Ideal Electronic*, 129 F.3d at 152.[10]

2. Inflated Fees For "Defensive" Work

The district court's failure to permit full adversarial testing of MGA's fee request led to basic errors of calculation. The court arrived at the $105.6 million fee award by subtracting $24 million in supposed non-copyright defensive work from the $129.6 million MGA represented it spent on all its defensive work. But the court erred in assuming, without analysis, the accuracy of the $129.6 million figure in the first place. ER30; *see Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1385 (9th Cir. 1984) ("The district court appears to have accepted uncritically plaintiff's representations concerning the time expended on this case, and it awarded the entire amount requested by plaintiff. Such a procedure is inadequate."); *Gates v. Deukmejian*, 987 F.2d 1392, 1400 (9th Cir. 1992).

The $129.6 million figure cannot withstand scrutiny. MGA added $63.2 million in billings by the Orrick and O'Melveny firms to the entire $63 million

[10] MGA also waived any privilege claim as to the invoices by bringing a malpractice action against its former counsel in this case, O'Melveny & Myers, and that waiver extended to the invoices submitted in that action by both O'Melveny and Skadden Arps. ER757-58. MGA produced copies of its unredacted attorneys' invoices to its adversary in that case. *See* ER851-52. "The client cannot be permitted to pick and choose among his opponents, waiving the privilege for some and resurrecting the claim of confidentiality to obstruct others." *Permian Corp. v. United States*, 665 F.2d 1214, 1221 (D.C. Cir. 1981).

billed by the Skadden and Keller firms and the $3.5 million billed by seven other law firms. ER896-99. But the assumption that every dollar of Skadden's and Keller's bills were for defensive work unrelated to any of MGA's claims is unfounded; Jennifer Keller was MGA's lead lawyer at trial for MGA's trade secrets claims, and the Skadden firm also was extensively involved in prosecuting MGA's affirmative claims. *See, e.g.*, ER1317-34. And the district court itself found that Orrick, which claimed to bill "affirmative" and "defensive" claims separately, failed to do so accurately, awarding MGA fees (in a separate order) for prosecuting its trade secret claim that were allocated by Orrick to MGA's defensive case: "an invoice prepared by the firm of Orrick, Herrington & Sutcliffe LLP that purports to cover hours dedicated to MGA's 'defensive' case in September 2010 logs numerous entries relating to MGA's prosecution of its trade secret misappropriation counterclaim." ER40.

3. Duplicative Fees

Nor did the district court reduce the $129.6 million fee figure to reflect duplicative or wasteful sums. The court ignored the fact that MGA had called its own former lawyers' fees "improper, bloated, excessive, unreasonable or even false" and "unnecessary." ER889-92. Nor did the district court explain why it failed to deduct any of the $45 million that the discovery master, in his report, had disallowed as reflecting "the transition from one law firm to another" and "fees for

work that . . . could have been performed more efficiently through other means." ER1421. This refusal to reduce MGA's duplicative fee requests was an abuse of discretion. *See Sorenson v. Mink*, 239 F.3d 1140, 1146-47 (9th Cir. 2001) (vacating fee award that failed to exclude portions of fee request that "reflect duplicative efforts and excessive staffing").

4. Windfall To MGA

The district court also erred in failing to reduce MGA's claimed fees even though MGA has not and will not ever pay a large portion of those fees to its lawyers. The $129.6 million claimed by MGA reflected the amounts billed by all of 11 different legal service providers. But the O'Melveny firm's lawsuit for its unpaid bills was pending at the time of the district court's fee decision, and the Orrick firm swore that "MGA has refused to pay Orrick in full for its work in the Mattel action. . . [and] has indicated that it will not pay Orrick and has no plan to do so at the present time" (ER856-57), later moving successfully to withdraw because MGA owed it $20 million in fees (ER731). MGA itself represented that it had paid only $70 million in fees out of its own funds. ER718. The district court abused its discretion in awarding MGA attorneys' fees it would never pay to its attorneys. *See Crescent Publ'g Grp. v. Playboy Enters., Inc.*, 246 F.3d 142, 151 (2d Cir. 2001) ("in no event should the fees awarded [under Section 505] amount

to a windfall for the prevailing party"); *see Assessment Techs. of WI, LLC v. WIREdata, Inc.*, 361 F.3d 434, 438-39 (7th Cir. 2004).

5. Erroneous Apportionment Standard

The district court also erred in awarding fees to MGA for defending against all claims factually related to Mattel's copyright claim, whether or not the work at issue furthered MGA's defense of the copyright claim. ER25-28. The court's approach is inconsistent with the Supreme Court's recent decision in *Fox v. Vice*, 562 U.S. __, 131 S. Ct. 2205 (2011), which left factual relatedness in place as a ground sufficient for civil rights plaintiffs, *id.* at 2213-15, but required civil rights defendants to show that they were shifting fees they "would not have paid but for the frivolous claim," *id.* at 2215. *Fox* requires an analysis of congressional purpose, *id.* at 2215 n.3, and the congressional purpose behind copyright fee-shifting more closely approximate those that apply to civil rights defendants than civil rights plaintiffs for copyright plaintiffs and defendants alike, *see Fogerty*, 510 U.S. at 533-34 (rejecting for copyright cases the rule of automatic fee-shifting that civil rights plaintiffs enjoy and holding that copyright plaintiffs and defendants "are to be treated alike"). The relevant standard therefore should be but-for causation, not mere factual relatedness to the copyright claim.

Even if the relatedness standard continues to apply in copyright cases, the gloss applied by the district court was error under *Fox*. The district court awarded

MGA tens of millions in fees for work wholly unrelated to the copyright claim on the grounds that the claims to which that work related bore some connection to the copyright claim. But fee allocation only becomes an issue, *Fox* explained, when the ***legal work*** at issue furthers the prosecution or defense of the claims on which a statute entitles fees to be shifted. 131 S. Ct. at 2214. Here, the court awarded fees for work that did not further MGA's defense against Mattel's copyright claim at all. For example, MGA defended against Mattel's state-law breach of duty claims by arguing that Bryant owed no fiduciary duty and no duty of loyalty to Mattel, but those arguments did nothing to further the defense of the copyright claim itself, to which the existence of such duties was never relevant. Thus, in awarding MGA "the reasonable attorneys' fees it incurred ***in defending against*** the copyright claim and all related claims" (ER28 (emphasis added)), the court misapplied even the relatedness standard for apportionment.[11]

For all these reasons, the attorneys' fees award at a minimum should be vacated and remanded.

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[11] Even under the "related" standard as they apply it, other circuits do not award fees for work unrelated to the copyright claim at issue. *See InvesSys, Inc. v. McGraw-Hill Cos., Ltd.*, 369 F.3d 16, 24 (1st Cir. 2004); *Pinkham v. Camex, Inc.*, 84 F.3d 292, 294 (8th Cir. 1996); *Twin Peaks Prods., Inc. v. Pubs. Int'l, Ltd.*, 996 F.2d 1366, 1383 (2d Cir. 1993). Nor does this Court do so in the trademark context, *see Gracie v. Gracie*, 217 F.3d 1060, 1070 (9th Cir. 2000), which the Court has explained is largely analogous to copyright. *Traditional Cat Ass'n v. Gilbreath*, 340 F.3d 829, 834 (9th Cir. 2003); *Stephen W. Boney, Inc. v. Boney Servs., Inc.*, 127 F.3d 821, 827 (9th Cir. 1997).

C. The District Court Abused Its Discretion In Awarding $31.6 Million In Copyright Costs

The district court's award of an additional $31.6 million in costs to MGA likewise requires vacatur.[12] To begin with, MGA claimed only $34 million in costs,[13] but the district court assumed it sought $40 million. ER30. The court then stated that this amount must be reduced to "exclude costs unrelated to the copyright claim," but erroneously limited those deductions to costs for outside investigators, deposition recording, branding research, and a study related to MGA's affirmative claims. ER30.[14]

The court did not even purport to apportion MGA's costs. MGA was awarded under the Copyright Act weeks of hotel charges incurred while it tried its affirmative claims (ER906, 1043-45), and deposition costs for the dozens of witnesses that related to non-copyright claims (*e.g.*, Gustavo Machado, Mariana

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[12] Mattel respectfully preserves for *en banc* review its position that non-taxable costs should not be awarded under § 505, given that this Court's approach conflicts with that of other circuits. *Compare Twentieth Century Fox Film Corp. v. Entm't Distrib.*, 429 F.3d 869, 885 (9th Cir. 2005) *with Pinkham v. Camex, Inc.*, 84 F.3d 292, 295 (8th Cir. 1996), *and Artisan Contractors Ass'n, of Am., Inc. v. Frontier Ins. Co.*, 275 F.3d 1038, 10-40 (11th Cir. 2001).

[13] In its original fee request, MGA sought $4,612,477 in costs included in its attorney invoices and $27,788,040 in costs billed directly to MGA. ER894. MGA belatedly filed supplemental declarations seeking $75,235 and $1,440,893 more in costs (ER759, 831), totaling $33,916,625.

[14] MGA initially requested $32,400,517 in costs; subtracting the four costs items identified by the court (valued respectively at $87,807, $7,000, $509,806, and $128,800) yields the sum of $31,667,104—the precise amount of the court's cost award. ER30.

Trueba, Pablo Vargas, all witnesses relating to Mexican trade-secret theft, and Neil Kadisha, David Nazarian, and Leon Farahnik, all witnesses relating to MGA's creditor relationships) (ER1019-39). The court ignored that MGA submitted the very same invoices multiple times over and received double or even triple compensation for the same charges,[15] even including charges for a separate party, Gustavo Machado, whose own fee application was rejected. ER748. The court also ignored the fact that some of these invoices related to other litigation (*e.g.*, *Art Attacks* (ER1042); *Belair* (ER767, 1041); *Hasbro* (ER1016-17); *Jenkins* (ER1018)).[16] The court's four-sentence explanation does not support its $31.6 million cost award.

CONCLUSION

MGA's trade-secret claim should be dismissed as time-barred and judgment should be entered for Mattel on that claim; alternatively, the portion of the judgment awarding $172.5 million in damages, fees and costs on the trade-secret claim should be reversed or vacated and remanded. The portion of the judgment

[15] *E.g.*, *compare* ER943 *with* ER1020, 1022 (duplicative charges for deposition expenses in the amounts of $2803.60 and $1,317 on January 8, 2010).

[16] MGA redacted as "privileged" on several invoices the name of the "*Belair*" matter—a different copyright action brought by photographer Bernard Belair against MGA and Mattel in the Southern District of New York. *Compare* ER767 (identifying "*Belair*" client matter number) *with* ER1041 (redacting same).

awarding $105.6 million in copyright defense fees and $31.6 million in copyright defense costs also should be reversed or vacated and remanded.[17]

Dated: New York, New York
February 27, 2012

Respectfully submitted,

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[17] Because there is no basis for any aspect of the monetary judgment to run against Mattel Mexico, the Court should in any event reverse the monetary judgment insofar as it runs against that party.

REQUEST FOR ORAL ARGUMENT

Plaintiffs-Appellants Mattel, Inc. and Mattel de Mexico, S.A. de C.V., respectfully request that this Court hear oral argument in this case.

STATEMENT OF RELATED CASES

Pursuant to Circuit Rule 28-2.6, Plaintiffs-Appellants identify the following cases as related:

Carter Bryant, et al v. Mattel Inc., et al., Case No. 11-56868 (filed October 25, 2011), and *Carter Bryant, et al v. Mattel, Inc., et al.*, Case No. 11-56881 (filed October 26, 2011): Appeals by MGA insurance carriers who sought, but were denied, the right to intervene in the underlying litigation between Mattel and MGA, following the judgment below and the filing of the current appeal, to assert their claimed rights to recovery of amounts paid by them to MGA in connection with the underlying litigation.

CERTIFICATE OF COMPLIANCE WITH FRAP 32(a)(7)(C) AND CIRCUIT RULE 32-1

Pursuant to Fed. R. App. P. 32(a)(7)(C) and Circuit Rule 32-1, the attached opening brief is proportionately spaced, has a typeface of 14 points or more and contains 13,979 words.

DATED: February 27, 2012

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CERTIFICATE OF SERVICE

I, Kathleen M. Sullivan, a member of the Bar of this Court, hereby certify that on February 27, 2012, I electronically filed the foregoing "Opening Brief of Plaintiffs-Appellants" with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system. I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

I further certify that I caused one copy of Plaintiffs-Appellants' Excerpts of Record to be served by third-party carrier, FedEx, for delivery within one business day, upon:

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