

C.A. No. 06-55807
(consolidated with C.A. No. 06-55806)

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

DENICE SHAKARIAN HALICKI, et al.,

Plaintiffs and Appellants,

vs.

CARROLL SHELBY INTERNATIONAL, INC., et al.,

Defendants and Appellees.

Appeal From The United States District Court
For The Central District of California
Honorable. James Otero, Judge Presiding
D.C. No. CV-04-8813 SJO (PJWx)

**COMBINED APPELLANTS' REPLY BRIEF/ CROSS-APPELLEES'
BRIEF**

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TABLE OF CONTENTS

	Page
INTRODUCTION RE: STANDING APPEAL (NO. 06-55807)	1
ARGUMENT	4
I. THERE ARE GENUINE ISSUES OF MATERIAL FACT AS TO WHETHER THE AGREEMENT GIVES HALICKI STANDING TO SUE	4
A. The Mutual Intention Behind The Agreement Was for Halicki To Retain The Remake “Eleanor” Merchandising Rights—The Precise Rights Defendants Infringed	5
1. “Eleanor” merchandising rights were never part of the “Property” transferred to Disney	5
2. Paragraph 5(b) can reasonably be understood to apply to merchandising rights for the Remake “Eleanor.”	6
3. The circumstances surrounding the Agreement’s execution show paragraph 5(b) was meant to incorporate the Remake “Eleanor.”	7
4. The rest of the Agreement supports the interpretation that paragraph 5(b) includes the Remake “Eleanor.”	7
B. The Extrinsic Evidence Compels The Conclusion That The Parties’ Mutual Intention Was That Halicki Retained The Remake “Eleanor” Merchandising Rights	11
1. Disney made its contractual intention clear in the Acknowledgment	11
2. Halicki was equally unequivocal about her contractual intentions	13
3. The evidence from the lawyers who negotiated the deal supports this interpretation	13
C. The Parties’ Subsequent Conduct Confirms Their Mutual Intention Was That Halicki Retained The Remake “Eleanor” Merchandising Rights	14

TABLE OF CONTENTS

	Page
II. REGARDLESS OF THE AGREEMENT, HALICKI HAS STANDING TO SUE FOR TRADEMARK INFRINGEMENT BECAUSE SHE STILL OWNS THE COMMON-LAW RIGHTS TO THE UNREGISTERED MARKS, “Eleanor” AND “Gone In 60 Seconds.”	17
A. How One Construes The Agreement Doesn’t Affect This Basis For Standing	18
B. Aside From The Issue Of Merchandising Rights, The Agreement Also Gives Halicki Standing Because Of Her Contingent Royalty Interests In The Remake	19
III. HALICKI ALSO HAS STANDING TO SUE FOR COPYRIGHT INFRINGEMENT BECAUSE DEFENDANTS INFRINGED THE CHARACTER “Eleanor” FROM THE REMAKE, WHICH IS A DERIVATIVE WORK FROM THE “Eleanor” IN THE ORIGINAL PICTURE	20
A. “Eleanor” In The Remake Is A Derivative Work	21
1. The “Eleanors” are substantially similar	21
2. Just because “Eleanor” is a car character doesn’t mean she can’t be a derivative work	22
3. The fact that the Remake “Eleanor” changed visually does not mean she is not a derivative work	23
B. Defendants’ Argument That “Eleanor,” As A Dramatic Character, Is Not Entitled To Copyright Protection Relies On Outdated Authority And Is Wrong	26
C. Contrary to <i>Warner Brothers</i> , Authorities Cited By Defendants And By Halicki Show That “Eleanor” Is A Protected Character	27
D. Halicki Can Sue For Defendants’ Infringement Of A Component Part Of The “Eleanor” Character—The Visual Appearance Of The Remake “Eleanor.”	29
E. Halicki Also Has Standing To Sue For Copyright Infringement As A Beneficial Owner Of The Copyright In “Gone in 60 Seconds.”	31

TABLE OF CONTENTS

	Page
IV. GENUINE FACTUAL ISSUES EXIST AS TO WHETHER HALICKI HAS STANDING TO OBTAIN DECLARATORY RELIEF, NAMELY THE CANCELLATION OF THE SHELBY TRUST’S REGISTRATION OF “Eleanor.”	33
V. DEFENDANTS’ RAMPANT USE OF THE “ELEANOR” AND “GONE IN 60 SECONDS” MARKS CAN, IN NO WAY, BE SEEN AS FAIR USE	35
CONCLUSION RE: STANDING APPEAL (NO. 06-55807)	36
INTRODUCTION AND SUMMARY OF ARGUMENT RE: ATTORNEYS’ FEES APPEAL (NO. 06-55806)	37
STATEMENT OF FACTS AND OF THE CASE	37
STANDARD OF REVIEW	38
ARGUMENT	38
I. THE DISTRICT COURT DID NOT ABUSE ITS DISCRETION IN DENYING THE SHELBY DEFENDANTS ATTORNEYS’ FEES ON HALICKI’S COPYRIGHT CLAIM	38
A. Degree Of Success	40
B. Frivolousness And Objective Unreasonableness	41
C. Motivation	43
D. Compensation And Deterrence	45
II. THE DISTRICT COURT DID NOT ABUSE ITS DISCRETION IN DENYING THE SHELBY DEFENDANTS ATTORNEYS’ FEES ON HALICKI’S TRADEMARK CLAIMS	46
III. THE SHELBY DEFENDANTS PROVIDE NO CREDIBLE SUPPORT FOR THEIR ALLOCATION OF ATTORNEYS’ FEES	47
CONCLUSION RE: ATTORNEYS’ FEES APPEAL (NO. 06-55806)	48

TABLE OF AUTHORITIES

Cases	Page
<i>Anderson v. Liberty Lobby, Inc.</i> , 477 U.S. 242, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986)	5
<i>Applied Information Sciences Corp. v. eBay, Inc.</i> , No. 05-56123, 2007 U.S. App. LEXIS 29871 (9th Cir. 2007)	46
<i>Banff, Ltd. v. Colberts, Inc.</i> , 810 F. Supp. 79 (S.D.N.Y. 1992)	46
<i>Belmore v. City Pages</i> , 880 F. Supp. 673 (D. Minn. 1995)	42
<i>Berkla v. Corel Corp.</i> , 302 F.3d 909 (9th Cir. 2002)	39, 42, 44
<i>Blumenfeld v. R.H. Macy & Co., Inc.</i> , 92 Cal. App. 3d 38, 154 Cal. Rptr. 652 (1979)	14
<i>CIBER, Inc. v. CIBER Consulting, Inc.</i> , 326 F. Supp. 2d 886 (N.D. Ill. 2004)	33
<i>Conn. Gen. Life Ins. Co. v. New Images of Beverly Hills</i> , 321 F.3d 878 (9th Cir. 2003)	35
<i>Cortner v. Israel</i> , 732 F.2d 267 (2d Cir. 1984)	31
<i>DC Comics, Inc. v. Reel Fantasy, Inc.</i> , 696 F.2d 24 (2d Cir. 1982)	18
<i>Diamond Star Bldg. Corp. v. Freed</i> , 30 F.3d 503 (4th Cir. 1994)	45
<i>Diver v. Goddard Memorial Hosp.</i> , 783 F.2d 6 (1st Cir. 1986)	48
<i>Donald Frederick Evans & Assocs., Inc. v. Continental Homes, Inc.</i> , 785 F.2d 897 (11th Cir. 1986)	39
<i>Fogerty v. Fantasy, Inc.</i> , U.S. 517, 535, 114 S.Ct. 1023, 127 L. Ed. 2d 455 (1994)	39, 40
<i>Gaiman v. McFarlane</i> , 360 F.3d 644 (7th Cir. 2004)	27
Cases	Page

TABLE OF AUTHORITIES

<i>Gator.Com Corp. v. L.L. Bean, Inc.</i> , 398 F.3d 1125 (9th Cir. 2005)	33
<i>Golden Gate Hotel Ass'n v. City and County of San Francisco</i> , 18 F.3d 1482 (9th Cir. 1994)	38, 45, 48
<i>Grupo Gigante SA De CV v. Dallo & Co., Inc.</i> , 391 F.3d 1088 (9th Cir. 2004)	17
<i>JB Oxford & Co. v. First Tenn. Bank Nat'l Ass'n</i> , 427 F. Supp. 2d 784 (M.D. Tenn. 2006)	21, 25, 28
<i>Jackson v. Axton</i> , 25 F.3d 884 (9th Cir. 1994)	38-39, 40
<i>Kamakazi Music Corp. v. Robbins Music Corp.</i> , 534 F. Supp. 69 (S.D.N.Y. 1982)	31
<i>Kavruck v. Blue Cross of California</i> , 108 Cal. App. 4th 773, 134 Cal. Rptr. 2d 152 (2003)	9
<i>Lamb v. Starks</i> , 949 F. Supp. 753 (N.D. Cal. 1996)	20
<i>Lieb v. Topstone Indus.</i> , 788 F.2d 151 (3d Cir. 1986)	39, 40
<i>Litchfield v. Spielberg</i> , 736 F.2d 1352 (9th Cir. 1984)	21
<i>Maffei v. Northern Ins. Co. of New York</i> , 12 F.3d 892 (9th Cir. 1993)	10, 17
<i>McGaughey v. Twentieth Century Fox Film Corp.</i> , 12 F.3d 62 (5th Cir. 1994)	40
<i>Metro-Goldwyn-Mayer, Inc. v. Am. Honda Motor Co., Inc.</i> , 900 F. Supp. 1287 (C.D. Cal. 1995)	25, 29
<i>Micro Star v. Formgen Inc.</i> , 154 F.3d 1107 (9th Cir. 1998)	21

Cases

Page

TABLE OF AUTHORITIES

<i>Milwaukee Concrete Studios, Ltd. v. Fjeld Mfg. Co., Inc.</i> , 782 F. Supp. 1314 (E.D. Wis. 1991), rev'd on other grounds, 8 F.3d 441 (7th Cir. 1993)	40
<i>Morey v. Vannucci</i> , 64 Cal. App. 4th 904, 75 Cal. Rptr. 2d 573 (1999)	5, 11
<i>NLFC, Inc. v. Devcom Mid-America, Inc.</i> , 916 F. Supp. 751 (N.D. Ill. 1995)	40
<i>Nat'l Conference of Bar Examiners v. Multistate Legal Studies, Inc.</i> , 692 F.2d 478 (7th Cir. 1982)	41
<i>New Line Cinema Corp. v. Easter Unlimited, Inc.</i> , 17 U.S.P.Q. 2d 1631 (E.D.N.Y. 1989)	30, 31
<i>Olson v. Nat'l Broad. Co.</i> , 855 F.2d 1446 (9th Cir.1988)	27
<i>Olsonite Corp. v. Bemis Mfg. Co.</i> , 610 F. Supp. 1011 (E.D. Wis. 1985)	47
<i>Pacific Gas & E. Co. v. G. W. Thomas Drayage etc. Co.</i> , 442 P.2d 641, 69 Cal. 2d 33 (1968)	11
<i>Rice v. Fox Broad. Co.</i> , 330 F.3d 1170 (9th Cir. 2003)	27, 28, 29
<i>Scott Fetzer Co. v. Williamson</i> , 101 F.3d 549 (8th Cir. 1996)	46, 47
<i>Sengoku Works Ltd. v. RMC Intern., Ltd.</i> , 96 F.3d 1217 (9th Cir. 1996)	17
<i>Sid & Marty Krofft Television Prod., Inc. v. McDonald's Corp.</i> , 562 F.2d 1157 (9th Cir. 1977), superceded by statute on other grounds, 17 U.S.C. § 504(b)	24
<i>Star-Kist Foods, Inc. v. P.J. Rhodes & Co.</i> , 735 F.2d 346 (9th Cir. 1984)	33
<i>Stephen W. Boney, Inc. v. Boney Servs., Inc.</i> , 127 F.3d 821 (9th Cir. 1997)	46

Cases

Page

TABLE OF AUTHORITIES

<i>Super 7 Motel Associates v. Wang</i> , 16 Cal. App. 4th 541, 20 Cal. Rptr. 2d 193 (1993)	5
<i>Thoroughbred Software Int'l, Inc. v. Dice Corp.</i> , 488 F.3d 352 (6th Cir. 2007)	39-40
<i>Ticor Title Ins. Co. v. Rancho Santa Fe Ass'n</i> , 177 Cal. App. 3d 726, 223 Cal. Rptr. 175 (1986)	9
<i>Toho Co., Ltd. v. William Morrow & Co., Inc.</i> , 33 F. Supp. 2d 1206 (C.D. Cal. 1998)	25
<i>Tri-Star Pictures, Inc. v. Leisure Time Prods., B.V.</i> , 749 F. Supp. 1243 (S.D.N.Y. 1990)	20
<i>Trident Center v. Connecticut General Life Ins. Co.</i> , 847 F.2d 564 (9th Cir. 1988)	11
<i>U.S. Cellular Inv. Co. v. GTE Mobilnet, Inc.</i> , 281 F.3d 929 (9th Cir. 2002)	14
<i>Universal City Studios, Inc. v. J.A.R. Sales, Inc.</i> , 216 U.S.P.Q. (BNA) 679 (C.D. Cal. 1982)	29, 30
<i>Universal Sewing Machine Co. v. Standard Sewing Equip.</i> , 185 F. Supp. 257 (S.D.N.Y. 1960)	35
<i>Walt Disney Prods. v. Air Pirates</i> , 581 F.2d 751 (9th Cir. 1978)	26, 27
<i>Warner Bros., Inc. v. Am. Broad. Cos.</i> , 720 F.2d 231 (2d Cir. 1983)	21, 24
<i>Warner Bros., Inc. v. Gay Toys, Inc.</i> , 658 F.2d 76 (2d Cir. 1981)	19
<i>Warner Bros. Pictures, Inc. v. Columbia Broad. Sys., Inc.</i> , 216 F.2d 945 (9th Cir. 1954)	26, 27
<i>Warren v. Fox Family Worldwide, Inc.</i> , 328 F.3d 1136 (9th Cir. 2003)	32
<i>Wing v. Asarco Inc.</i> , 114 F.3d 986 (9th Cir. 1997)	38
Statutes, Rules and Treatises	Page

TABLE OF AUTHORITIES

15 United States Code	
section 1064	33
section 1117	46
17 United States Code	
section 501	31
section 504	24
section 505	38
California Civil Code	
section 1636	4
section 1856	14
1 Melville B. Nimmer, David Nimmer, <i>Nimmer on Copyright</i> , section 2.12	27
6 J. Thomas McCarthy, <i>McCarthy on Trademarks and Unfair Competition</i> , section 32:51	34
Restatement (Second) of Contracts, section 203	10

INTRODUCTION RE: STANDING APPEAL (NO. 06-55807)¹

Defendants don't deny that they manufactured and sold knock-off replicas of the "Eleanor" car character from the 2000 remake of "Gone in 60 Seconds" ("Remake") without Halicki or Disney's consent. Yet nowhere in their appellees' briefs do defendants explain how *they* had *any* right to use the copyrighted "Eleanor" character or the trademarks, "Eleanor" and "Gone in 60 Seconds" to market their replica "Eleanors." Instead, defendants hang all their hopes on their "Halicki gave Disney all her rights in the agreement" argument. That argument is dead wrong, particularly on summary judgment where the 1995 agreement between Halicki and Disney for the Remake (the "Agreement") and all the extrinsic evidence surrounding the Agreement's execution must be construed in Halicki's favor. But even if that argument won the day, this Court must still reverse the judgment because Halicki's trademark, copyright and cancellation claims are viable wholly separate from how the Agreement is construed.

In the Agreement Halicki licensed some of her intellectual property rights to Disney to create a "Gone in 60 Seconds" remake or sequel—it was not a wholesale transfer of all copyright and trademark interests as defendants suggest. In fact, the Agreement specifically provided that the "Property" licensed "shall not include" various rights, including the "right to manufacture, sell and distribute merchandise utilizing the car known as 'Eleanor' from the Original Picture." (4ER 85, 95[¶5(b)].) Understandably, since the only "Eleanor" that existed when the 1995 Agreement was executed was the "Eleanor" from the original 1974 "Gone in 60 Seconds" ("Original Picture"),

¹ We refer to all plaintiffs collectively as "Halicki," and defendants collectively as "defendants." References to defendants' arguments refer to the Shelby defendants' brief; the Unique defendants simply filed a joinder and defendant Sanderson Sales filed no brief.

Halicki and her lawyers stated that the parties' mutual intention was that this reservation of rights covered merchandising rights to any "Eleanor," the Original or the Remake. Disney agreed this was the parties' intention, going so far as to acknowledge in a separate agreement that "as between it and Halicki, Halicki retained the merchandising rights to that certain car called 'Eleanor' as such car appears in the Remake." (36ER 935[¶1].)

Other provisions in the Agreement harmonize with Halicki's and Disney's interpretation of this reservation-of-rights language. The more specific grant of rights sections (paragraph 4), particularly those regarding merchandising and character adaptation rights, are explicitly subject to the "Eleanor" reservation. Likewise, the royalty Halicki retained—which only applied to Remake merchandise (paragraph 7)—specifically excluded "Eleanor" merchandising rights. These specific exclusions in the Agreement make no sense or are unnecessary if the reservation of rights only applied to merchandise that looked exactly like the Original "Eleanor," as the District Court ruled. The parties' mutual intention becomes crystal clear when one considers the fact that Disney—probably the world's most aggressive and successful marketer of film merchandise—never marketed the star car character from its blockbuster film.

The convincing extrinsic evidence of the parties' intentions—from both parties to the Agreement—and the parties' subsequent conduct vis-a-vis "Eleanor" merchandising rights, together with the explicit language of the Agreement itself, compel the conclusion that the District Court erred in construing the Agreement. Reversal becomes even more paramount because this was a summary judgment, meaning this Court must view all the evidence favorably to Halicki's interpretation of the Agreement, not defendants'.

Even if defendants' distortion of the parties' intent regarding treatment of "Eleanor" merchandising rights in the Agreement could somehow survive this Court's review, the summary judgment must still fall because:

- Halicki has independent standing to sue for infringement of her unregistered trademarks, "Eleanor" and "Gone in 60 Seconds." Hornbook law says that since Halicki's use of the marks preceded defendants by almost 30 years, defendants cannot wrest those marks away from Halicki simply by registering a trademark for "Eleanor." Halicki's license of those marks to Disney for use in the Remake does not somehow eliminate her ownership of those marks or her right to sue for defendants' open infringement of them. And, in any event, Halicki's royalty for non-Eleanor Remake merchandise in the Agreement also gives Halicki alternative trademark standing.
- Halicki has independent standing to sue for copyright infringement. No one disputes that Halicki owns the copyright to the Original Picture and the Original "Eleanor" character. Because the Remake "Eleanor" is substantially similar to the Original "Eleanor," the Remake is a derivative work, which Halicki has the right to protect. Given that the plot, dialogue and other characteristics of the two "Eleanors" are essentially identical, the fact that the characters look different does not make them legally dissimilar. And since defendants replicated the Remake "Eleanor" perfectly from hood to trunk, infringement of Halicki's derivative work has occurred. Contrary to defendants' contentions, the fact that "Eleanor" is a car, rather than a human, does not mean she can't be a copyright-protected dramatic character. Indeed, the annals of movie history are filled with highly distinctive non-human characters (like "Eleanor") protected by copyright law. Alternatively, whether the Remake "Eleanor" is a

derivative work or not, Halicki's merchandise royalty gives her standing as a beneficial copyright owner.

- Settled law also gives Halicki independent standing to seek cancellation of Shelby's federal registration of the "Eleanor" mark, because she has an obvious commercial interest in protecting her mark. Contrary to defendants' argument, nothing has happened here that eliminated the actual controversy over whether Shelby had any right to register a mark Halicki had been using for some 30 years.

The District Court misunderstood the Agreement and overreached in granting summary judgment on the contractual interpretation issue. But even if the District Court were right, this Court should reverse because Halicki has separate standing to sue for copyright and trademark infringement and to seek cancellation of Shelby's "Eleanor" mark.

ARGUMENT

I. THERE ARE GENUINE ISSUES OF MATERIAL FACT AS TO WHETHER THE AGREEMENT GIVES HALICKI STANDING TO SUE.

Defendants' contortion of the Agreement does not withstand scrutiny under governing California law. Defendants agree that the fundamental goal of contract interpretation is to give effect to the mutual intention of the parties at the time of contracting. *See* Appellees' Brief ("AA") 32; Cal. Civ. Code, § 1636. The parties' mutual intention "is determined by objective manifestations of the parties' intent, including the words used in the agreement, as well as extrinsic evidence of such objective matters as the surrounding circumstances under which the parties negotiated or entered into the contract; the object, nature and subject matter of the contract; and the subsequent conduct

of the parties.” *Morey v. Vannucci*, 64 Cal. App. 4th 904, 912, 75 Cal. Rptr. 2d 573, 578 (1999).

It must be remembered that any ambiguity in the Agreement favors Halicki—since the District Court here granted summary judgment, in construing the Agreement this Court must weigh all evidence and draw all legitimate inferences not in defendants’ favor, but in Halicki’s. *See, e.g., Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255, 106 S.Ct. 2505, 2513, 91 L. Ed. 2d 202 (1986).

A. The Mutual Intention Behind The Agreement Was for Halicki To Retain The Remake “Eleanor” Merchandising Rights—The Precise Rights Defendants Infringed.

The first place to look for the parties’ mutual intention is the Agreement itself. In doing so, defendants concur that “[a] contract must be interpreted as a whole, with each clause aiding the interpretation in the attempt to give purpose to every part.” (AA 35, quoting *Super 7 Motel Associates v. Wang*, 16 Cal. App. 4th 541, 546, 20 Cal. Rptr. 2d 193, 197 (1993). As we now explain, a careful reading of the entire Agreement shows that Halicki retained “Eleanor” merchandising rights.

1. “Eleanor” merchandising rights were never part of the “Property” transferred to Disney.

To begin, the “Property” Disney acquired in the Agreement was a right to make a sequel or remake of the Original Picture, “provided that ‘Property’ shall *not* include the rights reserved to Owner pursuant to paragraph 5.” (4ER 85, emphasis added.) It is telling that defendants repeatedly omit this key language from their description of the rights transferred in the Agreement. (AA 5, 20.) Paragraph 5(b) expressly reserved to Halicki the “*right to manufacture, sell and distribute merchandise utilizing the car known as ‘Eleanor’ from the Original*

Picture.” (4ER 95[¶5(b)], emphasis added.) Thus, “Eleanor” merchandising rights were never part of the intellectual property that Halicki licensed—the “Property” Disney acquired.

2. Paragraph 5(b) can reasonably be understood to apply to merchandising rights for the Remake “Eleanor.”

Defendants argue that Paragraph 5(b) can only mean that Halicki reserved just the merchandising rights to a car that looked exactly like “Eleanor” in the Original Picture. (AA 32-34.) The provision, however, is reasonably susceptible to another meaning.

The provision used the phrase “the car known as ‘Eleanor’ *from* the Original Picture.” (4ER 95[¶5(b)], emphasis added.) This implies the phrase was meant to include any derivative work from the Original “Eleanor.” If the parties wanted to limit it to the actual car character in the Original Picture, they would have said the “‘Eleanor’ *in* the Original Picture” or the “‘Eleanor *as portrayed in* the Original Picture.” Defendants argue that if the parties intended to include the Remake “Eleanor,” the provision would have read “any car known as ‘Eleanor’ from the Original Picture or from any sequel or remake produced pursuant to this Agreement.” (AA 33.) This competing phraseology highlights the fact that the provision’s meaning is not obvious—that one must look to the circumstances surrounding the Agreement’s execution, the rest of the Agreement and the extrinsic evidence to better divine the intent behind this provision. And that ambiguity makes this case singularly inappropriate for disposition on summary judgment.

3. The circumstances surrounding the Agreement’s execution show paragraph 5(b) was meant to incorporate the Remake “Eleanor.”

Paragraph 5(b) must be understood to incorporate future versions of “Eleanor” because when the Agreement was executed on May 17, 1995, no Remake “Eleanor” existed. It was not clear, at that time, that Disney’s use of the intellectual property would take the form of a remake; Disney could just as easily have made a sequel, or exploited that property in some other form, or chosen not to exercise its option under the Agreement at all. Thus, it would have been impossible to refer to merchandising rights to an “Eleanor” that didn’t yet exist and indeed might never exist. The most efficient and precise way to refer to “Eleanor” was to describe the only one in existence at the time—“the car known as ‘Eleanor’ from the Original Picture.”

4. The rest of the Agreement supports the interpretation that paragraph 5(b) includes the Remake “Eleanor.”

Looking at the rest of the Agreement makes it inescapable that this phrase was meant to incorporate the Remake “Eleanor.”

Paragraph 4. Paragraph 4 laid out the specific rights granted to Disney, but made them expressly “subject” to the “reserved rights specifically set forth in Paragraph 5.” (4ER 91.) Paragraph 4 then lays out some 13 sub-categories of rights granted, but when it comes to merchandising rights in paragraph 4(j) and character adaptation rights in paragraph 4(c), it made those subject to Paragraph 5. (4ER 91[¶4(c)], 93[¶4(j)].) Apparently to ensure no confusion, the omnibus rights subparagraph in 4(n) is also subject to Paragraph 5. (4ER 94[¶4(n)].)

Since these specific rights in Paragraph 4 concern only the Remake, it would be unnecessary to specifically exempt Paragraph 5(b) if that section only

related to merchandising rights to the Original Picture as defendants insist. Defendants counter that these “repeated references” were necessary because the “sequel and remake rights” in Paragraph 4 “included the ‘underlying’ rights which find their source in the Original Picture.” (AA 37.) The problem with that argument is that Paragraph 4 grants specific rights associated with “the Property” (4ER 91), and, as already explained, the Agreement defines “Property” as “not includ[ing] the rights reserved to [Halicki]” in Paragraph 5 (4ER 85). Since the rights associated with the Original Picture that were being granted in Paragraph 4 already encompassed the Paragraph 5 reservation of rights, there was no need to mention Paragraph 5 again unless one was carving out rights from the Remake.

Paragraph 5. The rest of the reservation of rights language in Paragraph 5 also indicates that Paragraph 5(b) was intended to refer to both “Eleanors.” First, while paragraph 5(a) reserves to Halicki the “right *to continue* to distribute and exhibit the Original Picture,” paragraph 5(b) is not phrased as a right to continue to merchandise “Eleanor.” (4ER 95, emphasis added.) If paragraph 5(b) only related to the Original Picture, it also would have read the “right to continue to manufacture, sell and distribute merchandise,” since, when the Agreement was executed, Halicki had both distributed the Original Picture *and* merchandised “Eleanor.” (7ER 335[¶5], 336[¶6].)

Second, paragraph 5(a) reserves to Halicki “the right to exploit” the “ancillary, subsidiary, incidental and related rights in and to the Original Picture.” (4ER 95[¶5(a)].) That broad language would encompass merchandising rights to the Original “Eleanor.” It would thus render paragraph 5(b) as redundant surplusage if that provision only applied to the Original “Eleanor.” As explained in a case defendants rely on, “[a]n interpretation which renders part of the instrument to be surplusage should be avoided.”

Ticor Title Ins. Co. v. Rancho Santa Fe Ass'n, 177 Cal. App. 3d 726, 730, 223 Cal. Rptr. 175, 177 (1986) (cited at AA 35).

Defendants point to the last section in paragraph 5 that they say shows the merchandising rights reservation was limited to the Original “Eleanor” (AA 36): The “Owner’s reserved rights under this Paragraph 5 relate only to material written or authorized by Toby Halicki, and not to any screenplay, characters, teleplay, music, lyrics or sequels written by or for or authorized by HPC, even though the same may contain characters or other elements contained in the Property.” (4ER 96.) Defendants argue this last section is necessary to “clarify that the only rights reserved by Halicki are those which relate to the Original Picture.” (AA 36.)

But under defendants’ interpretation, sections (a) - (d) of Paragraph 5 all deal only with the Original Picture; thus the last paragraph becomes redundant surplusage. And contract interpretations that create “surplusage should be avoided.” *Ticor Title*, 177 Cal. App. 3d at 730. The last section limits the reserved rights to “material written or authorized by Toby Halicki.” (4ER 96.) Obviously, the Original “Eleanor” was material created by Toby. If paragraph 5(b) only refers to the Original “Eleanor,” it would make no sense to have both paragraph 5(b) and the general language at the end of paragraph 5. It would be completely duplicative.

Defendants’ reading of the last section is not only duplicative, but would render paragraph 5(b) completely nugatory. Since the general language in this last section concerns material written by Toby—which includes “Eleanor”—defendants’ reading of that language wholly negates the specific merchandising rights regarding “Eleanor” reserved in paragraph 5(b).

California law provides that when general and specific contract language conflict, a court should give effect to the specific language over the general.

Kavruck v. Blue Cross of California, 108 Cal. App. 4th 773, 781, 134 Cal. Rptr.

2d 152, 157 (2003); Restatement (Second) of Contracts § 203, subd. (c) (1981). In fact, it's not clear that this general language was meant to apply to paragraph 5(b) at all since it does not specifically refer to Halicki's reserved *merchandising* rights.

The most consistent way to interpret this general language at the end of paragraph 5 was that it was intended to ensure that Disney would have rights in the material it created in the Remake, even if they were adapted from Toby's material, *except* for those specifically reserved rights in paragraph 5, like the "Eleanor" merchandising rights.

Paragraph 7. Paragraph 7 related to Halicki's percentage royalty on merchandising revenue garnered by Disney from the Remake *only*. (4ER 97.) Yet this merchandising royalty expressly did *not* apply to "the car from the Original Picture known as 'Eleanor.'" (*Id.*) Defendants again say it would be "natural" for the parties to "seek to clarify" Halicki's rights. (AA 38.) Defendants' interpretation serves not to clarify, but rather to create a contradiction. If the merchandising right reserved by Halicki in paragraph 5(b) only concerned the Original "Eleanor"—the whole premise of defendants' argument—there would be no reason to put this language in paragraph 7, since it only dealt with the Remake, not the Original Picture.

As we have shown, a careful reading of the entire Agreement shows the District Court's and defendants' interpretation of paragraph 5(b) is wrong. At the very least, though, the Agreement is reasonably susceptible to the meaning Halicki ascribes to it, making summary judgment "improper." *See Maffei v. Northern Ins. Co. of New York*, 12 F.3d 892, 898 (9th Cir. 1993).

In any event, the extrinsic evidence here erases any doubt as to the parties' mutual intention.

B. The Extrinsic Evidence Compels The Conclusion That The Parties' Mutual Intention Was That Halicki Retained The Remake "Eleanor" Merchandising Rights.

Defendants join the District Court's error in arguing that to admit extrinsic evidence the contractual provision must be ambiguous. (AA 38-39; *see also* AA 32, 34ER 910.) That is the wrong standard under California law. The California Supreme Court held that the "test of admissibility of extrinsic evidence to explain the meaning of a written instrument is not whether it appears to the court to be plain and unambiguous on its face, but whether the offered evidence is relevant to prove a meaning to which the language of the instrument is reasonably susceptible." *Pacific Gas & E. Co. v. G. W. Thomas Drayage etc. Co.*, 442 P.2d 641, 644, 69 Cal. 2d 33, 37 (1968); *see also Morey*, 64 Cal. App. 4th at 912 (trial court's exclusion of extrinsic evidence based on conclusion contract was unambiguous was "reversible error"). This Court has characterized the California rule as meaning no contract exists that doesn't allow for the admission of extrinsic parol evidence. *Trident Center v. Connecticut General Life Ins. Co.*, 847 F.2d 564, 565 (9th Cir. 1988).

The extrinsic evidence here supports a meaning to which the Agreement is reasonably susceptible. Both parties to the Agreement stated that their mutual intention was that the merchandising rights to the Remake "Eleanor" belonged to Halicki. The lawyers who negotiated the deal agreed this was the parties' intention. Not only does this extrinsic evidence make it hard to argue that the Agreement is not reasonably susceptible to that meaning, but it settles the issue of mutual intention.

1. Disney made its contractual intention clear in the Acknowledgment.

Disney, for its part, acknowledged, in a separate agreement, that "*as between it and Halicki, Halicki retained the merchandising rights to that*

certain car called ‘Eleanor’ as such car appears in the Remake.’ (36ER 935[¶1], emphasis added.)

Defendants argue the Acknowledgment is unhelpful because it “does not even purport to express the parties’ intent regarding” the Agreement. (AA 41.) Not so. The Acknowledgment specifically referred to the Agreement and the Remake and stated that “the parties to the Agreement wish to clarify” the “Eleanor” merchandising rights. (36ER 935.) Disney then expressly acknowledged that under the Agreement Halicki retained the Remake “Eleanor” merchandising rights. (*Id.*) How can that language not be seen as expressing the parties’ intent regarding the paragraph 5(b) reservation of rights in the Agreement? This is particularly true since Disney was not a party to this lawsuit and thus had no particular self-interest in making this Acknowledgment.

Defendants also argue the Acknowledgment should not be considered because it was untimely. (AA 40-41.) Halicki filed the Acknowledgment on January 5, 2006 in support of her reconsideration motion (36ER 932)—almost four months before the District Court ruled on that motion (40ER 957). Defendants had an opportunity to and did object to the Acknowledgment well prior to the court’s ruling. (37ER 940-945, 39ER 953-956.) Although the Acknowledgment was filed late in that it came after Halicki filed her reply, defendants have shown no prejudice (as they had time to object) and the District Court had plenty of time to consider the Acknowledgment’s effect. Moreover, Halicki’s counsel did explain the delay, stating that for “the last 9 months” his firm had approached Disney on “multiple occasions” to obtain “written proof of the intent of the parties” in the Agreement, and that after the District Court’s initial summary judgment ruling his firm’s renewed efforts finally paid off when “Disney [agreed] to provide a document acknowledging the intent of the parties to the 1995 Agreement.” (36ER 933:15-23.) Defendants’ complaint that the submission was not accompanied by a declaration from Disney (AA 40-

41) makes no sense since the Acknowledgment was authenticated by Halicki's counsel and signed by a Disney Vice President (36ER 937).

2. Halicki was equally unequivocal about her contractual intentions.

Halicki was equally unequivocal about the parties' intent concerning "Eleanor" merchandising rights. She declared that, given all the probate battles she had endured to obtain the rights to "Eleanor," that she made it known to Disney that her retention of the merchandising rights to the star car of the "Gone in 60 Seconds" franchise was a non-negotiable deal point; "[a]t no time did anyone from Disney" tell Halicki that her position was unacceptable. (7ER 337[¶¶11-12].)

3. The evidence from the lawyers who negotiated the deal supports this interpretation.

Not only were the parties clear on their mutual intention vis-a-vis "Eleanor" merchandising rights, but so were the attorneys. Indeed, defendants conveniently ignore (AA 42-43) the fact these attorneys declared that this non-negotiable deal point was conveyed to and agreed to by Disney, and that the drafts, notes and final provisions of the Agreement reflected that intent. (6ER 321-322[¶¶5-7], 325-326[¶¶6-8].)

How the extrinsic evidence just laid out "compels the conclusion that the parties meant" for the paragraph 5(b) reservation to refer only to the Original "Eleanor" is a mystery defendants do not explain. (AA 15; *see also* AA 38.) Instead, this extrinsic evidence, together with the language of the Agreement, is more than sufficient for this Court to conclude that there are genuine factual issues as to whether Halicki retained the merchandising rights to the Remake "Eleanor."

Defendants rely on *Blumenfeld v. R.H. Macy & Co., Inc.*, 92 Cal. App. 3d 38, 154 Cal. Rptr. 652 (1979) to argue that the extrinsic evidence here is not

admissible. (AA 39-40.) *Blumenfeld* is flatly distinguishable. First, *Blumenfeld* concerned a bench trial, so deference had to be given to the trial court’s factual determinations, while here just the opposite is true—since it was a summary judgment the extrinsic evidence must be viewed in the light most favorable to Halicki. 92 Cal. App. 3d at 41. Second, the agreement in *Blumenfeld* contained no reservation of rights (like paragraph 5(b) here), but rather only a general grant of rights. *Id.* at 42. This made it much harder to argue the agreement was reasonably susceptible to an interpretation that there was a reservation in the rights granted. And third, although the opinion is somewhat unclear, the proffered extrinsic evidence appears to have come only from the plaintiff, not the other party to the agreement. *Id.* at 43-44. By contrast, Halicki offered extrinsic from both (indeed, all) the parties to the Agreement—her and Disney. This made the contractual interpretation offered by the extrinsic evidence much more reasonable.

Blumenfeld is miles from the situation here. And the extrinsic evidence here all points in Halicki’s direction.

C. The Parties’ Subsequent Conduct Confirms Their Mutual Intention Was That Halicki Retained The Remake “Eleanor” Merchandising Rights.

As this Court explained, “[u]nder California law, a court may consider the subsequent acts and conduct of the parties in the execution of the contract in order to determine the intent of those parties.” *U.S. Cellular Inv. Co. v. GTE Mobilnet, Inc.*, 281 F.3d 929, 937 (9th Cir. 2002); Cal. Code Civ. Proc., § 1856(c) (contract explained by course of performance). Here, the conduct of both Disney and Halicki confirms that their intention was that Halicki retain the merchandising rights to the Remake “Eleanor.”

First, the evidence showed that Disney never merchandised “Eleanor” from the Remake, despite the film’s worldwide success and the popularity of

the “Eleanor” character. (6ER 322[¶8], 326[¶10]; 7ER 337[¶12].) Defendants argue this evidence from Halicki and her attorneys isn’t enough because they lacked personal knowledge of Disney’s marketing activities, and that instead Halicki should have submitted a declaration from Disney. (AA 43.) However, there is sufficient foundation for this evidence, particularly when it is construed in Halicki’s favor, because if Halicki believed she owned merchandising rights to the Remake “Eleanor,” she and her attorneys would have every reason to police the marketplace. And Disney did submit evidence in another way. Disney is hardly retiring when it comes to exploiting merchandising opportunities. In 2004 alone, it garnered over \$30 billion in merchandising revenues. (*See* Walt Disney Co., *Fact Book 2004*, http://corporate.disney.go.com/investors/fact_books/2004/index.html.) If Disney believed it had the rights to merchandise the star car character from its blockbuster hit, it would not have sat on the sidelines.

Defendants also argue that Disney did merchandise the Remake “Eleanor,” pointing to its alleged marketing of a die-cast toy car resembling the Remake “Eleanor.” (AA 45.) Halicki was correct below that this evidence was inadmissible because it was irrelevant (the District Court did not rule on her motion to strike). (31ER 890-894.) In fact, this evidence actually buttresses Halicki’s position that Disney did not market “Eleanor.” First, defendants conceded that the mark “Eleanor” is not used anywhere on the car or the packaging. (AA 45; *accord* 30ER 886-889.) Not only does that make this evidence irrelevant, but it also strongly suggests Disney knew it didn’t have the right to market “Eleanor.” Second, if Disney believed it had the rights to merchandise the Remake “Eleanor,” it is hard to believe the only “Eleanor” merchandise it would release was a toy car that didn’t even mention it was an “Eleanor.”

Defendants even try to distort the Acknowledgment as evidence that Disney was marketing the Remake “Eleanor.” They argue that Halicki’s release of Disney in the Acknowledgment from any claims associated with Disney’s merchandising of the Original or the Remake “Eleanor” was unnecessary unless Disney had been merchandising the Remake “Eleanor.” (AA 46, n.7.) The Acknowledgment actually shows just the opposite. If Disney believed it had the right to merchandise the Remake “Eleanor,” it would have had no need to include a release in the Acknowledgment.

Halicki who, of course, does not have the marketing muscle of a Disney, did seek to exploit her “Eleanor” merchandising rights. She sought a deal with Ford for it to release a new special edition “Eleanor” Mustang, as it had done in 2001 with the Mustang used in the movie, “Bullitt.” (6ER 318[¶14], 7ER 339[¶¶22-23], 376, 378.) Defendants argue that Halicki’s letter only refers to the Original “Eleanor.” (AA 44.) The letter actually refers to Ford developing “a ‘*Gone in 60 Seconds – Eleanor*’ Ford Mustang 2006.” (7ER 376.) Viewing this evidence favorably to Halicki, as this Court must, it can easily be seen as referring to the Remake “Eleanor”—indeed, given that the Remake had just been released a few years earlier and been a smash hit, why would Ford release a Mustang based on the Original “Eleanor?”

Thus, the subsequent conduct by the parties also shows their mutual intention was that Halicki retained the merchandising rights to the Remake “Eleanor.”

* * * * *

The District Court got it wrong when it construed the Agreement. At a minimum, “summary judgment is improper because differing views of the intent of [the] parties [concerning the merchandising rights to the Remake ‘Eleanor’] will raise genuine issues of material fact.” *Maffei*, 12 F.3d at 898.

II. REGARDLESS OF THE AGREEMENT, HALICKI HAS STANDING TO SUE FOR TRADEMARK INFRINGEMENT BECAUSE SHE STILL OWNS THE COMMON-LAW RIGHTS TO THE UNREGISTERED MARKS, “Eleanor” AND “Gone In 60 Seconds.”

Defendants don’t deny that Halicki owns the unregistered marks, “Eleanor” and “Gone in 60 Seconds.” (AA 28-46.) Nor do defendants try to excuse or explain their unauthorized use of those marks to sell their replica “Eleanors.” (AOB 28-32.) Their only argument is that Halicki does not have standing to sue for trademark infringement, only Disney does, under the Agreement. We have just addressed and refuted that argument. But it must be noted that if defendants’ sole argument fails, they have essentially conceded that they infringed these marks.

Defendants’ apparent concession is understandable since a prior user of an unregistered trademark—Toby Halicki began using the marks in 1974—has priority over a subsequent user, even if that user registers that mark, as Shelby did with the word “Eleanor” in 2004. *Sengoku Works Ltd. v. RMC Intern., Ltd.*, 96 F.3d 1217, 1219 (9th Cir. 1996); accord *Grupo Gigante SA De CV v. Dallo & Co., Inc.*, 391 F.3d 1088, 1093 (9th Cir. 2004) (“A fundamental principle of trademark law is first in time equals first in right”). In fact, defendants do not dispute that they began using the marks some 30 years after Halicki first did.

Halicki’s ownership of these marks gives her standing under the common law and the Lanham Act to sue for trademark infringement, unfair competition and false advertising. Since Halicki’s declaratory relief action and state law claims for constructive trust and unfair competition are based, at least in part, on trademark infringement, standing exists for those claims as well.

A. How One Construes The Agreement Doesn’t Affect This Basis For Standing.

Halicki's standing is not eliminated if in the Agreement she granted Disney the right to use the marks in the Remake. (AA 28.) That grant of trademark rights, by its very language, was limited to those rights relating to the "Property"—a remake of the Original Picture subject to specific reservations. (4ER 85.) It was not a sale of all rights to the marks, "Eleanor" and "Gone in 60 Seconds." No matter how one construes who obtained the merchandising rights to the Remake "Eleanor" under the Agreement, Halicki's ownership of the marks remained extant and that provided a separate basis for Halicki's suit.

In construing the Agreement the District Court and defendants wrongly focused on the visual appearance of the "Eleanors." (34ER 908; AA 31-32.) But the mark defendants stole from Halicki (and the "Eleanor" that Shelby registered) was not for "Eleanor's" visual appearance, but for the word "Eleanor." Thus, Halicki's suit over defendants' infringement of the "Eleanor" mark remains alive regardless of how one construes merchandising rights in the Agreement.

Defendants also argue, without any support, that the "Eleanor" merchandising rights reservation in paragraph 5(b) has no effect on trademark rights. (AA 34.) That makes no sense. Halicki could not retain a right to merchandise "Eleanor" without the right to use the "Eleanor" mark.

In sidestepping the issue of their blatant trademark infringement, defendants ignore two very similar trademark cases Halicki cited in her opening brief. In *DC Comics, Inc. v. Reel Fantasy, Inc.*, 696 F.2d 24 (2d Cir. 1982), the court reversed a summary judgment, holding that genuine issues existed as to whether a chain of comic bookstores' use of the store name, "Batcave," infringed on the plaintiff's registered mark, "Batman," and unregistered mark, "Batcave," which was Batman's secret hideout and headquarters. *Id.* at 25-27. The plaintiff showed that it had used "Batcave" since the 1940s and had licensed its use to a toy manufacturer to market a plastic replica of Batman's

hideout. *Id.* at 25. Halicki and her husband had also licensed the use of “Eleanor” and “Gone in 60 Seconds” since the 1970s, so defendants’ use of the marks is clearly infringing. (*See* AOB 12-15.)

In *Warner Bros., Inc. v. Gay Toys, Inc.*, 658 F.2d 76 (2d Cir. 1981), the TV show, “The Dukes of Hazzard,” sued a toy manufacturer for infringing their unregistered mark in the car character, “General Lee.” *Id.* at 77-78. The defendant, without consent, sold a toy car called the “Dixie Racer,” which also was a bright orange 1969 Dodge Charger with a confederate decal, but with the door numerals reversed from “01” to “10.” *Id.* at 78. Here, by contrast, defendants used the “Eleanor” and “Gone in 60 Seconds” marks without any alteration of appearance or name—indeed, what they were openly selling was a replica of “Eleanor.”

B. Aside From The Issue Of Merchandising Rights, The Agreement Also Gives Halicki Standing Because Of Her Contingent Royalty Interests In The Remake.

In fact, even if one accepts defendants’ strained construction of the Agreement, Halicki still had standing to sue for trademark infringement and unfair competition. Halicki’s contingent royalty interest in the sales of the Remake—namely, a contingent payment based on a percentage of Adjusted Gross Receipts and Net Profits (4ER 88[¶2.5])—confers standing to sue for infringement of the unregistered marks, “Gone in 60 Seconds” and “Eleanor”).

Defendants do not even address this argument. This is understandable given how on-point the law is here: “[A] royalty interest, stripped of all other property rights, is sufficient to confer standing under” the Lanham Act.

Tri-Star Pictures, Inc. v. Leisure Time Prods., B.V., 749 F. Supp. 1243, 1250 (S.D.N.Y. 1990). Indeed, standing to sue under the Lanham Act is broad: “Any ‘commercial party’ which ‘has a reasonable interest to be protected’ has standing.” *Tri-Star*, 749 F. Supp. at 1250.

Halicki’s percentage royalty interest in sales of the Remake patently gives her a reasonable commercial interest in protecting the “Gone in 60 Seconds” and “Eleanor” marks. This is true regardless of how one construes paragraph 5(b) of the Agreement.

* * * * *

Defendants are wrong that there is no genuine factual issue as to who retained Remake “Eleanor” merchandising rights under the Agreement. But even if they’re right, Halicki still had standing to sue for trademark infringement, unfair competition and related state claims over her unregistered marks “Eleanor” and “Gone in 60 Seconds.”

III. HALICKI ALSO HAS STANDING TO SUE FOR COPYRIGHT INFRINGEMENT BECAUSE DEFENDANTS INFRINGED THE CHARACTER “Eleanor” FROM THE REMAKE, WHICH IS A DERIVATIVE WORK FROM THE “Eleanor” IN THE ORIGINAL PICTURE.

A copyright owner has the right to sue someone infringing a derivative work. *Lamb v. Starks*, 949 F. Supp. 753, 755-56 (N.D. Cal. 1996). Halicki owns the copyright to the Original Picture and all the characters in it. (4ER 66-67, 148-150.) The Remake “Eleanor” character—which defendants openly copied—is a derivative work from the copyrighted Original “Eleanor.” So, irrespective of how the District Court construed the Agreement, Halicki also has standing to sue defendants for copyright infringement.

A. “Eleanor” In The Remake Is A Derivative Work.

This Court has explained that a “work will be considered a derivative work only if it would be considered an infringing work” of the original work if it had been created without consent. *Micro Star v. Formgen Inc.*, 154 F.3d 1107, 1112 (9th Cir. 1998); *Litchfield v. Spielberg*, 736 F.2d 1352, 1357 (9th

Cir. 1984). Proving infringement requires showing the two works “‘are substantially similar in both ideas and expression.’ Similarity of ideas may be shown by comparing the objective details of the works: plot, theme, dialogue, mood, setting, characters, etc. Similarity of expression focuses on the response of the ordinary reasonable person, and considers the total concept and feel of the works.” *Micro Star*, 154 F.3d at 1112 (citations omitted).

Thus, we must engage in two layers of substantial similarity analysis here. First, to determine whether the Remake “Eleanor” is a derivative work we examine the similarity between the two “Eleanors.” Second, assuming it is a derivative work, we examine whether there is substantial similarity between the Remake “Eleanor” and the merchandise defendants sold without Halicki’s consent.

1. The “Eleanors” are substantially similar.

The “Eleanor” car characters in the Remake and the Original Picture are substantially similar in both ideas and expression (compare 7ER 341[Original DVD] with 17ER 586 [Remake DVD]). “In determining whether visual characters are substantially similar, a court must analyze ‘not only the visual resemblance but also the totality of the characters’ attributes and traits.’” *JB Oxford & Co. v. First Tenn. Bank Nat’l Ass’n*, 427 F. Supp. 2d 784, 800 (M.D. Tenn. 2006) (quoting *Warner Bros., Inc. v. Am. Broad. Cos.*, 720 F.2d 231, 241 (2d Cir. 1983)).

- Both “Eleanors” are the only car characters mentioned or seen multiple times in each film.
- Both “Eleanors” have a personal, special relationship with the main male human character.
- Both “Eleanors” are black-striped vintage Ford Fastback Mustangs.
- Both “Eleanors” are the Holy Grail for the thieves—the last and most difficult car to steal.

- Both “Eleanors” are finally swiped at the International Towers in Long Beach.
- Both “Eleanors” culminate the films with long, spectacular car chases that have become the most memorable part of the films.
- Both “Eleanors” eventually manage to elude their police pursuers, “1 Baker 11,” by performing an awesome jump with the main male character at the wheel.
- Both “Eleanors” are badly damaged, but are swapped out for new “Eleanors” as the films end.

Defendants’ first copyright argument completely ignores all these similar characteristics and misstates that the only “four” characteristics that Halicki identified were that “Eleanor” is “‘elusive’ and ‘tough, plucky, and able to take a hit.’” (AA 17, 18.) That may be an overall description of Eleanor’s personality, but it does not encompass all the specific, similar characteristics of the Original and Remake “Eleanors” that Halicki pointed to in her opening brief. (AOB 42-43.)

2. Just because “Eleanor” is a car character doesn’t mean she can’t be a derivative work.

“Eleanor” is not “simply a car,” as defendants suggest. (AA 17.) The “Gone in 60 Seconds” film franchise involves, of course, *car* movies, so the cars play a central role in the movies’ attraction. But “Eleanor” is the only car character in both movies with which the main human character has conversations. This anthropomorphism is part of what turns an exotic muscle car into a recognizable movie star. Indeed, defendants didn’t choose to build replicas of any of the other 50 cars stolen in the Remake and they made sure to exploit the movie star’s name, “Eleanor,” rather than market “simply a car.”

Further, as car characters go, “Eleanor” is a much more primary character than other famous cars, like the “Batmobile,” “General Lee” (from “The Dukes

of Hazzard”), and “Bandit” (from “Smokey and the Bandit”). “Eleanor” is the signature of the “Gone in 60 Seconds” movie franchise, whether the Original Picture or the Remake. As Lee Iacocca explained, “you could not separate ‘Eleanor’ from ‘Gone in 60 Seconds.’ . . .” (6ER 318[¶15].)

Thus, contrary to defendants’ contention, they did not simply copy a name and visual car design. (AA 18-19.) What they copied, exploited, marketed and sold was a character from a blockbuster movie franchise. Defendants’ simplistic argument conflates the two layers of substantial similarity analysis here. What they copied is irrelevant to whether the Remake “Eleanor” is a derivative work. It is only relevant to whether they infringed the Remake “Eleanor,” which we discuss in section III.D below.

3. The fact that the Remake “Eleanor” changed visually does not mean she is not a derivative work.

In exploring the substantial similarity of dramatic visual characters, the Second Circuit explained that one must look to the totality of the character:

The graphic rendering of a character has aspects of both the linear, literary mode and the multi-dimensional total perception. What the character thinks, feels, says, and does and the descriptions conveyed by the author through the comments of other characters in the work episodically fill out a viewer’s understanding of the character. At the same time, the visual perception of the character tends to create a dominant impression against which the similarity of a defendant’s character may be readily compared, and significant differences readily noted.

Warner Bros. v. Am. Broad., 720 F.2d at 241-42.

The only real difference between the Original and Remake “Eleanors” is that the Original looks like a yellow-and-black 1973 Ford Fastback Mustang, while one of the Remake “Eleanor” car characters resembles a gray-and-black

1967 Ford Fastback Mustang and is referred to as a Shelby GT 500.² And even the visual difference between the “Eleanors” is diluted, because at the end of the Remake, “Eleanor” is portrayed looking very similar to the Original “Eleanor.” (17ER 586 [Remake DVD].) Given all the other identical characteristics, that relatively minor difference is not enough to make the Remake “Eleanor” dissimilar to the Original “Eleanor”—thus the Remake “Eleanor” is a derivative work.

Indeed, this Court has noted that visual differences do not preclude a finding of infringement and thus a conclusion that a work is derivative. “Duplication or near identity is not necessary to establish infringement. . . . “[A]n infringement is not confined to literal and exact repetition or reproduction; it includes also the various modes in which the matter of any work may be adopted, imitated, transferred, or reproduced, with more or less colorable alterations to disguise the piracy.” *Sid & Marty Krofft Television Prod., Inc. v. McDonald’s Corp.*, 562 F.2d 1157, 1167 (9th Cir. 1977), *superceded by statute on other grounds*, 17 U.S.C. § 504(b). This Court emphasized that the ordinary viewer would not notice the visual differences between the characters, as much as “the over-all impact and effect.” *Id.* at 1167, 1169.

Decisions from other jurisdictions hammer this point home with both human and non-human characters:

- In *JB Oxford, supra*, the plaintiff financial services firm had developed a television commercial in which a character named “Bill”

² It should be noted that neither the Remake “Eleanor” nor the replica “Eleanors” defendants are pandering are actually genuine Ford Fastback Shelby GT 500 Mustangs, they are simply vintage Ford Fastback Mustangs that have been doctored up (just like the Original “Eleanor” was as well). (17ER 581[¶9], 27ER 833[¶3], 856.) In fact, the Remake “Eleanor” and defendants’ imitations don’t even look like vintage Shelby GT 500s, despite the reference to “Shelby” in the Remake.

is a balding white male dressed in a vertical costume that represents a stack of one dollar bills with cut-outs for the actor's face, arms and legs. *JB Oxford*, 427 F. Supp. 2d at 799. "Bill" is portrayed as lazy and unproductive, spending most of his time loafing around an apartment and watching television. *Id.* The defendant bank also used a dollar-bill costumed character and, even though there were "significant differences in the costumes," because the defendant's characters in one advertisement were also lazy unproductive loafers, the court held there was a genuine issue as to their substantial similarity. *Id.* at 801, 803-04.

- In *Metro-Goldwyn-Mayer, Inc. v. Am. Honda Motor Co., Inc.*, 900 F. Supp. 1287 (C.D. Cal. 1995), the court held that the James Bond character was protected by copyright even though the character has changed "from film to film, from actor to actor, and from year to year." *Id.* at 1296-97.
- In *Toho Co., Ltd. v. William Morrow & Co., Inc.*, 33 F. Supp. 2d 1206 (C.D. Cal. 1998), the court ruled that "[w]hile Godzilla may have shifted from evil to good, there remains an underlying set of attributes that remain in every film. Godzilla is always a pre-historic, fire-breathing, gigantic dinosaur alive and well in the modern world." *Id.* at 1216.

"Eleanor" also changed from film to film, at least visually, but an underlying set of attributes remained: She is a Ford Fastback Mustang that is the main thief's muse and unicorn, she is the hardest car to steal and she culminates the film by eluding the police after a spectacular car chase and an awesome jump, only to ride off into the sunset with her male pursuer. Most of the "Eleanor" characters' traits are identical and both are indelibly linked to the enduring popularity of "Eleanor" and the overall mood of the "Gone in 60

Seconds” franchise. In fact, Doug Hasty, defendant Unique Performance’s President, described in a news article how “[y]ou drive this car through D/FW Airport, and traffic stops Planes stop. People go by and shout ‘Eleanor!’ at you. It’s almost embarrassing.” (5ER 279.)

B. Defendants’ Argument That “Eleanor,” As A Dramatic Character, Is Not Entitled To Copyright Protection Relies On Outdated Authority And Is Wrong.

Defendants’ other main argument is that “dramatic characters are ordinarily not afforded copyright protection.” (AA 16.) This overstated and outdated contention does not hold up to close scrutiny. Defendants rely chiefly on the “story being told” test from this Court’s 1954 *Warner Brothers* decision. (AA 16-18, citing *Warner Bros. Pictures, Inc. v. Columbia Broad. Sys., Inc.*, 216 F.2d 945, 950 (9th Cir. 1954) (“*Warner Brothers*”).) However, this Court (and others) have largely discredited that dicta in *Warner Brothers*.

In *Walt Disney Prods. v. Air Pirates*, 581 F.2d 751 (9th Cir. 1978) this Court distinguished *Warner Brothers* as applying to literary characters, but not to visual characters like comic book characters, because they have “physical as well as conceptual qualities” and are thus “more likely to contain some unique elements of expression”—just like the visual “Eleanor” movie star car character. *Id.* at 755. A decade later, this Court cited *Air Pirates* and other decisions in noting that “the statements in *Warner Bros.* concerning the unprotectability of characters” could be considered to be dicta.³ *Olson v. Nat’l Broad. Co.*, 855 F.2d 1446, 1452 (9th Cir.1988).

³ This Court’s dicta observation is right since the main grounds for *Warner Brothers*’ reversal involved construing the contracts between the parties, rather than issues of copyrightability. *Warner Brothers*, 216 F.2d at 949-50; *see also* Nimmer, at n.13 at 2-178.27-.28, & p. 2-178.30 (*Warner Brothers* discussion was dicta and reasoning of *Air Pirates* “does suggest an undermining” of the *Warner Brothers* test).

Judge Posner from the Seventh Circuit, citing *Air Pirates* and *Olson* was unflinching about the fate of *Warner Brothers*: “The Ninth Circuit has killed the decision.” *Gaiman v. McFarlane*, 360 F.3d 644, 660 (7th Cir. 2004). Professor Nimmer, for his part, was more diplomatic and opined that *Warner Brothers* “drew a much too restrictive line” and cautioned that “such a rule if followed would effectively exclude characters from the orbit of copyright protection.” 1 Melville B. Nimmer, David Nimmer, *Nimmer on Copyright* § 2.12, at 2-178.27-.29 (2007) (“Nimmer”). Instead, Professor Nimmer explained that “it is clearly the prevailing view that characters *per se* are entitled to copyright protection.” Nimmer, § 2.12, at p. 2-178.25.

C. Contrary to *Warner Brothers*, Authorities Cited By Defendants And By Halicki Show That “Eleanor” Is A Protected Character.

Defendants’ reliance on *Rice v. Fox Broad. Co.*, 330 F.3d 1170 (9th Cir. 2003) (cited at AA 16) is misplaced. In fact, *Rice* reveals why “Eleanor” is a protected character. In *Rice*, the plaintiff had created a home video featuring a masked magician who revealed how to perform well-known magic tricks and illusions. *Id.* at 1173, 1175. The defendant Fox network developed a series of television specials that also used a masked magician to reveal the secrets behind famous magic illusions. *Id.* This Court held that the plaintiff’s magician character was not “sufficiently delineated to warrant copyright protection.” *Id.* at 1175. Since he was “dressed in standard magician garb” and “his role [was] limited to performing and revealing the magic tricks,” there was nothing “especially distinct” or unique about the character that would differentiate him from an ordinary magician. *Id.* In addition, the court held the two magicians were not substantially similar because there were “notable difference[s]” in the plots and the dialogue of the two works. *Id.* at 1176-77.

“Eleanor,” on the other hand, is more than just a stock car character. She is the only character (car or human) given a starring credit in the Original Picture and the only car character promoted in the Remake DVD, which distinguishes her from all the other cars the thieves are trying to steal in both the Original Picture and the Remake. She also has a special relationship and interaction with the main male human character in both films; she becomes his muse and his curse. And unlike the other car characters, she appears multiple times throughout the films. That is why, of course, fans of the “Gone in 60 Seconds” franchise did not become attached to any of the other multitude of exotic cars that appeared in the films—because those were just stock car characters (like the magician in *Rice*) rather than distinct car characters with a particular personality. And that is why, of course, defendants here chose to copy “Eleanor’s” look and name rather than just a stock Ford Fastback Shelby Mustang GT 500.

Thus, “Eleanor” is much more like the dollar-bill character in the advertisements in *JB Oxford, supra*. There, the court held that although the idea of a man dressed up as a dollar bill is not protectible, “the ‘expression’ of this idea in the form of ‘Bill,’ with his costume, name, and specific character traits, is protectible.” *JB Oxford*, 427 F. Supp. 2d at 799.

As to plot and dialogue similarity between the “Eleanors,” the situation couldn’t be more different from *Rice*. The dialogue between the main human character and “Eleanor” in both the Original Picture and the Remake are very similar. And in both films, “Eleanor” is the last and most difficult car to steal, is finally collared at the International Towers in Long Beach, leads the police (“1 Baker 11”) on a climactic car chase culminating in a death-defying jump, and because she is badly damaged ends the film being swapped out for another “Eleanor.”

In contrast to the magician in *Rice*, “Eleanor” is a more than sufficiently distinct character to warrant copyright protection.

Having determined that “Eleanor” is a protected derivative character, we must now examine whether defendants infringed Halicki’s copyright in that character.

D. Halicki Can Sue For Defendants’ Infringement Of A Component Part Of The “Eleanor” Character—The Visual Appearance Of The Remake “Eleanor.”

This Court (and others) have held that “a plaintiff who holds copyrights in a film series acquires copyright protection as well for the expression of any significant characters portrayed therein.” *Metro-Goldwyn-Mayer*, 900 F. Supp. at 1293 (James Bond movies); *Universal City Studios, Inc. v. J.A.R. Sales, Inc.*, 216 U.S.P.Q. (BNA) 679, **8-9 (C.D. Cal. 1982) (the “character ‘E.T.’ in the motion picture . . . contains unique elements of expression and is protectible”).

To determine whether defendants infringed the copyright in the derivative work, the Remake “Eleanor,” we must examine whether defendants’ “Eleanors” are substantially similar to the Remake “Eleanor.” That seems quite straightforward and easy to show. By exactly copying the visual image of the Remake “Eleanor” and marketing the replica as the “star car of the recent action-packed blockbuster movie ‘Gone in 60 Seconds,’” defendants consciously tried to tap into the appeal of the entire “Eleanor” car character. (*See* 8ER 442-444.) Indeed, substantial similarity is probably established alone by defendants’ precise replication of one important component of the Remake “Eleanor” character—her visual appearance.

In *New Line Cinema Corp. v. Easter Unlimited, Inc.*, 17 U.S.P.Q.2d 1631 (E.D.N.Y. 1989), the court enjoined a toy company from selling a black glove with protruding blades, because it was substantially similar to the macabre glove worn by Freddy Krueger, the crazed killer in the “Nightmare on Elm

Street” film franchise. *Id.* at **9-12. The court emphasized that “[c]opyright protection is extended to the component part of the character which significantly aids in identifying the character.” *Id.* at * 7.

“Eleanor’s” visual appearance in the Remake is plainly a “component part” of her character that helps people identify her—it is not the sum of her character, but it is the part most easily merchandised. That is why consumers, when they saw advertisements or shows about the replica “Eleanors,” assumed that the copyright owners were involved and asked Halicki why she was not in the ads for “her” Eleanor. (7ER 339[¶¶24-26].) And when some trade journalists drove defendants’ replica “Eleanor” down the Las Vegas strip, “[m]ost people identified Eleanor with the movie, not with Shelby.” (5ER 289.)

Defendants also appear to argue that merchandising rights are somehow different from or not included in copyright rights to characters. (AA 14.) Far from it. Copyright “[p]rotection extends to expressions of that character not only in motion pictures, but in other media as well, including three-dimensional expressions.” *Universal City Studios*, 216 U.S.P.Q. at *18.

Thus, in *Universal City Studios*, the court held that the defendants’ molded-plastic doll infringed on the movie character, “E.T.,” because of the visual similarities and because it “portray[ed] the same mood of loveliness.” 216 U.S.P.Q. at **8-10. The court issued a preliminary injunction because “the defendant’s dolls are substantially similar to the motion picture character ‘E.T.,’ who has come to symbolize both Universal and the motion picture ‘E.T. The Extra-Terrestrial.’” *Id.* at *13; *accord New Line*, 17 U.S.P.Q.2d at **9-12 (copyright protection given to Freddy Krueger glove from “Nightmare on Elm Street”).

Likewise, defendants’ sale of replica Remake “Eleanor” merchandise infringed on Halicki’s copyright in that derivative work.

E. Halicki Also Has Standing To Sue For Copyright Infringement As A Beneficial Owner Of The Copyright In “Gone in 60 Seconds.”

The Agreement *is* relevant to another aspect of Halicki’s copyright infringement claim though—it gives her standing to sue as a beneficial owner of the “Gone in 60 Seconds” copyright. A “legal or beneficial owner of an exclusive right under a copyright” can sue for infringement. 17 U.S.C. § 501(b). A “beneficial owner” includes “an author who had parted with legal title to the copyright in exchange for percentage royalties based on sales or license fees.” *Cortner v. Israel*, 732 F.2d 267, 271 (2d Cir. 1984) (contingent right to royalties sufficient); *accord Kamakazi Music Corp. v. Robbins Music Corp.*, 534 F. Supp. 69, 74 (S.D.N.Y. 1982) (royalties).

Defendants argue that in the Agreement Halicki did more than part with legal title to the copyright, she parted with any beneficial ownership of it. (AA 25-28.) That mischaracterizes the Agreement. First, in granting Disney broad rights to her copyright, Halicki did not assign or sell that copyright, but only granted Disney an “exclusive, irrevocable license.” (4ER 100[¶11(a)].) Second, as to the precise copyright interest that defendants infringed—merchandising rights—Halicki specifically reserved certain rights. She was entitled to a contingent royalty payment of various percentages of Adjusted Gross Receipts and Net Profits from the Remake.⁴ (4ER 88[¶2.5].)

These reservations of both a royalty interest and “Eleanor” merchandising rights carve out a beneficial ownership interest from the broad

⁴ Alternatively, if one accepts the District Court’s strained construction of paragraph 5(b) that it only refers to a car that looks exactly like the Original “Eleanor,” another cognizable royalty interest exists. The paragraph 5(b) language was also an exception to Halicki’s percentage royalty on Remake merchandise in paragraph 7 of the Agreement. If that language only applied to the Original “Eleanor” character, then Halicki retained a royalty interest on any merchandise revenue related to the Remake “Eleanor.”

language defendants point to in paragraph 4(c). (AA 25-26.) Indeed, paragraph 4(c)'s grant to Disney "except[s]" any "compensation" due Halicki under the Agreement, namely the royalty interest and merchandising rights. (4ER 92 [¶4(c)].) Thus, paragraph 4(c) also evinces an intent that Halicki retain some beneficial copyright ownership.

Nor does the language in paragraph 11 appointing Disney as attorney-in-fact to prosecute copyright infringement actions eviscerate Halicki's beneficial ownership interest, as defendants argue (AA 27)—it actually supports it. That paragraph, 11(f), applies expressly to "copyrights in and to the Property" (4ER 102) and "'Property' shall not include the rights reserved to Owner pursuant to Paragraph 5" (4ER 85). Indeed, the entire copyright license in paragraph 11 is "subject to Paragraph 5." (4ER 100[¶11(a)].) Since Paragraph 5 concerned precisely the merchandising rights at stake here, Halicki did *not* make Disney her attorney-in-fact for those rights.

Defendants also argue that this Court's ruling in *Warren v. Fox Family Worldwide, Inc.*, 328 F.3d 1136 (9th Cir. 2003) "suggests that the concept of beneficial ownership is to be applied narrowly." (AA 25.) Not so. *Warren* simply held that the plaintiff was not a beneficial owner because he had created the composition as a work for hire, but the opinion said nothing about narrowly construing the beneficial owner concept. *Id.* at 1144-45. Not even defendants contend that Halicki's rights to the "Gone in 60 Seconds" copyright are the result of a work for hire, so *Warren* is simply irrelevant.

* * * * *

Regardless of how one construes the Agreement, Halicki has standing to sue for defendants' copyright infringement of her derivative work—the Remake "Eleanor." And even accepting the District Court's errant interpretation of the Agreement, Halicki's royalty and merchandising rights under the Agreement give her standing as a beneficial copyright owner.

IV. GENUINE FACTUAL ISSUES EXIST AS TO WHETHER HALICKI HAS STANDING TO OBTAIN DECLARATORY RELIEF, NAMELY THE CANCELLATION OF THE SHELBY TRUST’S REGISTRATION OF “Eleanor.”

Yet another of Halicki’s claims, cancellation, can be prosecuted, regardless of how one construes the Agreement. Defendants’ sole argument as to why Halicki lacks standing to seek cancellation is because there is no actual controversy here. (AA 50.) Defendants fail to address Halicki’s argument in her opening brief (AOB 59-60) that her longstanding commercial interest in her “Eleanor” mark gives her standing to seek cancellation under 15 U.S.C. § 1064. *See also Star-Kist Foods, Inc. v. P.J. Rhodes & Co.*, 735 F.2d 346, 348-50 (9th Cir. 1984).

Moreover, the authorities defendants rely on belie their actual controversy argument. In *Gator.Com Corp. v. L.L. Bean, Inc.*, 398 F.3d 1125 (9th Cir. 2005) (cited at AA 50), the court held no standing existed because the parties had settled the dispute during the appeal. *Id.* at 1131. Likewise, in *CIBER, Inc. v. CIBER Consulting, Inc.*, 326 F. Supp. 2d 886 (N.D. Ill. 2004) (cited at AA 52), the court ruled that the plaintiff’s voluntary dismissal of its infringement claim mooted the defendant’s cancellation counterclaim, because there was no longer any threat to the defendant’s mark. *Id.* at 890. Here, however, no settlement was reached and Halicki took no voluntary action to dismiss her infringement claim. The damage caused by the Shelby Trust’s improper “Eleanor” registration persisted and thus the cancellation claim remains actionable.⁵

⁵ Defendants make an even odder, related argument—that the District Court’s dismissal of Halicki’s suit mooted her cancellation claim. (AA 53.) The fact that the court improperly dismissed her case cannot eliminate her standing to seek cancellation at the time she filed the suit.

Defendants also rely on language from the McCarthy treatise that no actual controversy exists unless a plaintiff reasonably fears that the defendant will sue it for infringement. (AA 51.) First, that issue comes up when a plaintiff is seeking a declaratory judgment of non-infringement; here, however, Halicki is seeking cancellation. Second, in that same section, McCarthy notes that “[e]ven in the absence of direct charges of infringement against plaintiff by defendant, an ‘actual controversy’ can be found if the commercial realities of the situation put plaintiff in a position where it must run a real risk of potential liability if it goes ahead to exercise what it believes are its legal rights in the commercial market.” 6 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 32:51 at p. 32-122 (2007). The whole reason Halicki filed the suit was because the defendants’ flooding of the market with unauthorized replica “Eleanors” was confusing the public as to the true source of “Eleanor” and ruining any attempt by Halicki to market her own authorized “Eleanor” merchandise. To argue there is no actual controversy—when *Mustang Monthly* puts Shelby on the cover of its magazine standing next to an “Eleanor” replica with the headline “Gone In 60 Seconds, Carroll Shelby Produces A ‘New’ Eleanor for the Masses!” (5ER 281)—contorts that principle beyond recognition.

Halicki’s cancellation claim should have been allowed to proceed, regardless of how the District Court construed the Agreement.⁶

⁶ Defendants throw in an exhaustion of administrative remedies argument for the first time on appeal. (AA 53.) This Court should not consider an argument raised for the first time on appeal. *Conn. Gen. Life Ins. Co. v. New Images of Beverly Hills*, 321 F.3d 878, 882-83 (9th Cir. 2003). In any event, defendants’ authority explicitly says exhaustion might apply if a party seeking cancellation relies “solely” on the cancellation claim for federal jurisdiction. *Universal Sewing Machine Co. v. Standard Sewing Equip.*, 185 F. Supp. 257, 259 (S.D.N.Y. 1960) (cited at AA 53). Halicki, of course, also relies on her copyright and Lanham Act claims for federal jurisdiction, so *Universal Sewing Machine* does not apply.

V. DEFENDANTS' RAMPANT USE OF THE "ELEANOR" AND "GONE IN 60 SECONDS" MARKS CAN, IN NO WAY, BE SEEN AS FAIR USE.

Defendants have apparently conceded that their unauthorized use of the marks, "Gone in 60 Seconds" and "Eleanor" does not constitute fair use. They do not dispute the facts underlying their infringement and make absolutely no attempt to counter Halicki's arguments and authorities in her opening brief, which we will not repeat here. (AOB 61-64.) Assuming this Court determines that Halicki did have standing, it can and should decide the question of fair use.

Even though the Remake "Eleanor" neither looked like nor was a Ford Fastback Shelby GT 500 Mustang, the only justification defendants give for their obvious infringement is that "no one involved" with the Remake "sought Shelby's permission to identify a Shelby brand automobile by the name, 'Eleanor.'" (AA 7.) This is where fair use actually does apply. Disney had a right to refer (four times) to a Mustang car character that resembled a 1967 Ford Fastback Mustang (but is significantly different from a Shelby) as a "Shelby" (17ER 581[¶¶6-7], 586 [Remake DVD])—just like Disney could refer to the other multitude of cars in the Remake as "Ferraris" or "Porsches"—because such a reference does not imply that Shelby is endorsing or sponsoring the movie.⁷ By contrast, what defendants were doing by using the "Eleanor" and "Gone in 60 Seconds" marks was to tell consumers that their products were endorsed by the creators of "Eleanor" and "Gone in 60 Seconds."

⁷ In fact, Shelby's counter-claim against Halicki was premised precisely on the contention that the Remake's reference to "Shelby" infringed on his trademark. (Clerk's Docket No. ("CR") 29.) The District Court dismissed Shelby's counterclaim, ruling that any use of "Shelby" in the Remake was nominative fair use; Shelby has not appealed that ruling. (CR 194.)

And defendants don't even try to explain how Disney's use of "Shelby" in the Remake could justify their nonconsensual use of "Eleanor" and "Gone in 60 Seconds" to sell their replicas.

Under controlling law, defendants' use of Halicki's marks was not a fair use.

CONCLUSION RE: STANDING APPEAL (NO. 06-55807)

This Court should reverse the summary judgment, because Halicki has standing to sue for any one of a number of persuasive reasons. But this Court should go further. It should find that the Remake "Eleanor" is a derivative work from the Original "Eleanor," and that defendants infringed that derivative work. Finally, this Court should find that defendants' use of the marks, "Gone in 60 Seconds" and "Eleanor," is not fair use and that therefore defendants have no defense for their brazen trademark and copyright infringement.

INTRODUCTION AND SUMMARY OF ARGUMENT

RE: ATTORNEYS' FEES APPEAL (NO. 06-55806)

The Shelby Defendants face an uphill climb to persuade this Court that the District Court abused its discretion in denying them attorneys' fees on either Halicki's copyright or trademark claims. It is undisputed that Halicki owned the trademarks and the copyrights associated with the "Gone in 60 Seconds" film franchise since the mid 1970s. Defendants don't contend they have an independent right to these intellectual property rights. They simply argue (wrongly) that Halicki assigned those rights to Disney. This despite the fact that Disney acknowledged that under the Agreement "Halicki retained the merchandising rights to that certain car called 'Eleanor' as such car appears in the Remake." (36ER 935[¶1].) In this context, it is hard to fathom how defendants can argue Halicki's suit was frivolous, groundless or unreasonable.

STATEMENT OF FACTS AND OF THE CASE

The facts concerning the underlying case are laid out fully in Halicki's opening brief in the standing appeal and will not be repeated here. (AOB [standing] 12-33.)

The District Court entered an order granting defendants' motion for summary judgment on November 15, 2005. (34ER 901-929.) On November 29, 2005, the Shelby Defendants filed a motion for attorneys' fees (SER 111-131), which the court denied (SER 150-152).

As to Halicki's copyright claims, the District Court found those claims were "not frivolous, fanciful, or clearly baseless," but that rather her "motivation was to protect interests [she] believed to be [hers]." (SER 151.) The court emphasized that Halicki's "claims were decided *on the issue of standing*, not on whether the Shelby Defendants are in fact, copyright infringers." (*Id.*, emphasis original.) The court found attorneys fees were also

“unwarranted” on Halicki’s trademark claims, because her suit was not “groundless, unreasonable, vexatious, or pursued in bad faith.” (SER 151-152.)

STANDARD OF REVIEW

The Shelby Defendants agree that the District Court’s decision to deny them attorneys’ fees must be reviewed under the abuse of discretion standard. (AA 57-58.) Discretion is abused by a district court when “judicial action is ‘arbitrary, fanciful or unreasonable,’ or ‘where no reasonable man (or woman) would take the view adopted by the trial court.’” *Golden Gate Hotel Ass’n v. City and County of San Francisco*, 18 F.3d 1482, 1485 (9th Cir. 1994). “When reviewing for abuse of discretion, [an appellate court] cannot reverse unless [it] ha[s] a ‘definite and firm conviction that the court below committed a clear error of judgment in the conclusion it reached upon a weighing of the relevant factors.’” *Wing v. Asarco Inc.*, 114 F.3d 986, 988 (9th Cir. 1997).

ARGUMENT

I. THE DISTRICT COURT DID NOT ABUSE ITS DISCRETION IN DENYING THE SHELBY DEFENDANTS ATTORNEYS’ FEES ON HALICKI’S COPYRIGHT CLAIM.

The Copyright Act allows recovery of reasonable attorneys’ fees by a prevailing party. 17 U.S.C. § 505. The factors this Court has considered for an award of fees to a prevailing defendant are: “[1] frivolousness; [2] motivation; [3] objective unreasonableness (both in the factual and legal arguments in the case); and [4] the need in particular circumstances to advance considerations of compensation and deterrence.” *Jackson v. Axton*, 25 F.3d 884, 889 (9th Cir. 1994) (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 535 n.19, 114 S.Ct. 1023,

1033, 127 L. Ed. 2d 455) (1994); accord *Berkla v. Corel Corp.*, 302 F.3d 909, 923 (9th Cir. 2002).

The Shelby Defendants suggest that attorneys' fees "should be awarded routinely" in a copyright action. (AA 62.) The weight of authority is to the contrary. First, the focus of the factors for awarding attorneys' fees—frivolousness and objective unreasonableness—strongly indicate that fees are an exceptional, not a routine remedy, since very few cases are legally frivolous.

Second, the Supreme Court explicitly rejected the argument that "prevailing plaintiffs and defendants should be awarded attorney's fees as a matter of course," ruling instead that the "automatic awarding of attorney's fees to the prevailing party would pretermitt the exercise of that discretion" specifically called for in section 505. *Fogerty*, 510 U.S. at 533, 114 S.Ct. at 1033. The circuit courts have agreed. In *Lieb v. Topstone Indus.*, 788 F.2d 151 (3d Cir. 1986), the decision from which the *Fogerty* Court took its governing factors, the Third Circuit held that "we do not believe Congress intended that the prevailing party should be awarded attorney's fees in every case as a matter of course. Were that the contemplated result, the statute would not have left the matter to the courts' discretion but would simply have mandated a fee allowance." *Id.* at 155. The Eleventh Circuit concurred: "The language [of the statute] clearly indicates that awarding of fees to the prevailing party is not mandatory." *Donald Frederick Evans & Assocs., Inc. v. Continental Homes, Inc.*, 785 F.2d 897, 916 (11th Cir. 1986). We have found no cases in which this Court has held that attorneys' fees to a prevailing defendant are automatic or routine.

Third, the decisions the Shelby Defendants rely on are significantly different. In *Thoroughbred Software Int'l, Inc. v. Dice Corp.*, 488 F.3d 352 (6th Cir. 2007) (cited at AA 63), the plaintiff had won, not the defendant as

here, and, even there the court cautioned that “attorney’s fees are not awarded automatically.” *Id.* at 362. In *McGaughey v. Twentieth Century Fox Film Corp.*, 12 F.3d 62 (5th Cir. 1994) (cited at AA 62-63), the lower court had awarded fees to the defendant, so the plaintiff had to show that award was an abuse of discretion, which was hard because the facts showed the defendant had no access to the plaintiff’s work before writing its script. *Id.* at 65-66. Here, of course, the burden is switched: it is the defendant (Shelby), not the plaintiff (Halicki), that has to show an abuse of discretion.

The Shelby Defendants have no chance of establishing such an abuse of discretion, because the governing factors strongly favor Halicki.

A. Degree Of Success.

It is not clear whether this factor cited by the Shelby Defendants applies. (AA 63.) It is not listed in the Supreme Court’s *Fogerty* decision or the Third Circuit’s *Lieb* opinion, from which the factors originate, nor is it included in this Court’s more recent decisions (e.g., *Berkla*), although it is mentioned in this Court’s *Jackson* decision.

Nevertheless, what this factor does point to is an important preliminary point that the Shelby Defendants gloss over: It is not clear that they were the “prevailing party” for purposes of copyright attorneys’ fees. In *Milwaukee Concrete Studios, Ltd. v. Fjeld Mfg. Co., Inc.*, 782 F. Supp. 1314 (E.D. Wis. 1991), *rev’d on other grounds*, 8 F.3d 441 (7th Cir. 1993), the court dismissed a copyright infringement claim for lack of proper venue, but denied defendant attorneys’ fees. *Id.* at 1315, 1318. The court was “not convinced that the defendants have ‘prevailed’” under section 505 and that “only after the action has [. . .] been adjudicated on its merits will a ‘prevailing party’ emerge.” *Id.* at 1318; *see also NLFC, Inc. v. Devcom Mid-America, Inc.*, 916 F. Supp. 751, 756 (N.D. Ill. 1995) (“A ‘prevailing party’ [under § 505] is considered one who succeeds on a significant issue in the litigation after an adjudication on the

merits”). Similarly, in *Nat’l Conference of Bar Examiners v. Multistate Legal Studies, Inc.*, 692 F.2d 478 (7th Cir. 1982), the plaintiff brought both trademark and copyright claims, but shortly before trial dropped its copyright claim. *Id.* at 480-82. In affirming the district court’s denial of attorneys’ fees, the circuit court agreed the defendant was not the prevailing party on the copyright claim: “Since we were never required to make a finding on the issue of infringement of the copyright, we will not find that the claim was not meritorious or that defendant was the prevailing party on this issue.” *Id.* at 489, n.12.

Likewise, the District Court here was very careful to say that Halicki’s “claims were decided *on the issue of standing*, not on whether the Shelby Defendants are in fact, copyright infringers.” (SER 151, emphasis original.) Given that there never was a finding on non-infringement, the Shelby Defendants cannot be seen as “prevailing parties” on that issue. This Court need go no further in affirming the denial of fees.

If this Court believes it must proceed further, the success factor, in any event, strongly favors Halicki. The Shelby Defendants did not succeed in showing they were not infringers, but only that Disney, rather than Halicki, had standing. (SER 151.) That hardly shows a high degree of success.

B. Frivolousness And Objective Unreasonableness.

The District Court found that Halicki’s copyright claim was “not frivolous, fanciful, or clearly baseless” and was “not objectively unreasonable.” (SER 151.) It is undisputed that Halicki owns the copyright to the Original Picture and all the characters in it, including “Eleanor.” It is also undisputed that the Remake, including the characters in it, was based on the Original Picture. In those circumstances, Halicki’s claim that the Remake “Eleanor” is a derivative work from the Original “Eleanor” and that defendants copied the Remake “Eleanor” can hardly be seen as frivolous or objectively unreasonable—indeed, it is quite persuasive. (*See infra*, Appellants’ Reply Brief [standing], § III.A.)

The Shelby Defendants engage in a lengthy regurgitation of the arguments they make in their appellees' brief in the standing appeal. (AA 64-66.) Halicki has refuted those arguments in her reply brief in that appeal. There is no need to repeat those arguments here. The Shelby Defendants, of course, cannot use their reply brief in the attorneys' fees appeal to re-argue the merits of the standing appeal; Shelby's reply brief in this appeal is limited to attorneys' fees issues.

The fact that Halicki's suit was not frivolous is also highlighted by the fact that defendants didn't articulate an independent right to sell an exact replica of the copyrighted character Remake "Eleanor." Their only argument was that Halicki assigned those rights to Disney. And even that argument is flimsy since Disney expressly acknowledged that Halicki retained the Remake "Eleanor" merchandising rights under the Agreement. (36ER 935[¶1].)

In *Berkla, supra*, the district court granted defendant Corel summary judgment on Berkla's copyright claim, but denied Corel any attorneys' fees. *Berkla*, 302 F.3d at 916-17. This Court affirmed that denial, explaining, "[Berkla] lost on summary judgment, but that does not mean that his claim was objectively unreasonable--in fact, the district court conceded that Berkla's work contained protectable expression and that, although not virtually identical, Corel's [work was] substantially similar to Berkla's." *Id.* at 924.

Similarly, in *Belmore v. City Pages*, 880 F. Supp. 673 (D. Minn. 1995), the court granted the defendant summary judgment on fair use, but awarded it no attorneys' fees, because the plaintiff "is the owner of a purportedly valid copyright, and [the defendant] published his copyrighted material. These facts are sufficient to establish a prima facie case of copyright infringement." *Id.* at 680-81. Halicki easily made out a prima facie case. Defendants admitted having access to the Remake and then deciding to manufacture replicas of the star car character from that copyrighted film without seeking the consent or

license of anyone associated with the film. (AOB [standing] 24-28.) If that isn't a colorable claim, it is hard to imagine one.

C. Motivation.

The District Court pointed out the obvious: “[Halicki’s] motivation was to protect interests [she] believed to be [hers].” (SER 151.) Yet the Shelby defendants still spend several pages trying to argue this point. (AA 66-69.) This despite the fact that Halicki (or her husband) have owned the “Gone in 60 Seconds” copyright for over 30 years and defendants have never owned any copyright related to the film franchise. The Shelby Defendants present no evidence that Halicki’s motivation was anything other than trying to protect her valuable copyright. Instead, they re-argue that Halicki conveyed her copyright interests to Disney. (AA 66-67.) That argument is wrong, but if Halicki legitimately believed she had not assigned those rights and sued, that would not show an improper motivation.

Halicki’s publicity of her suit doesn’t show bad motivation, either. (AA 67-68.) It simply shows that she believes her rights were being infringed. It also makes eminent sense, given that defendants had flooded the market with publicity misleading the public that “[t]he ‘Eleanor’ GT-500E Shelby Mustang, the star car of the recent action-packed blockbuster movie ‘Gone in 60 Seconds’, will now be available as a limited edition series . . . with a certificate of authenticity from the originator of the ‘Eleanor’ movie car [Shelby].” (8ER 442.)

In their desperate attempt to infer some bad motivation to Halicki’s filing of this suit, the Shelby Defendants go so far as to reveal a settlement offer Halicki made at a confidential mediation organized by the District Court. (AA 68; SER 123:10-11.) This revelation shows surprising chutzpah. Defendants have sold hundreds of their unauthorized knock-off “Eleanors” for as much as \$214,000 a piece. It doesn’t take a clever economist to understand

that defendants' ill-gotten gains could quickly climb into the multi-millions, making Halicki's settlement offer quite reasonable.

In a similar situation, this Court found the motivation factor favored the lower court's denial of fees. In arguing it should have received fees, the defendant Corel in *Berkla, supra*, claimed Berkla had a history of litigiousness and that his motivation for suing was to extract a license agreement from Corel. 302 F.3d at 924. This Court noted, however, that "Corel was not a blameless victim in this lawsuit--its admittedly illegal behavior prompted Berkla's complaint. Corel's attempt to paint Berkla as a litigious schemer who 'set up' Corel obscures Corel's underlying wrongful conduct and is insufficient to warrant overturning the district court's denial of fees." *Id.*

The Shelby Defendants also try to paint Halicki as a vexatious litigant. (AA 66-67.) But Shelby is not the "blameless victim" in this suit. This is how Shelby explained why he didn't try to legally obtain the rights to use "Eleanor":

"Fuck them. They didn't get my permission to use my name. I'm not going to get permission from them to use their name. . . . If they sue me, I'll sue them right back." (27ER 835[¶12].)

And the misuse of Halicki's copyrighted "Eleanor" continues to get worse.

Allegations have recently surfaced that the Unique Defendants (Shelby's licensees) were engaging in title-washing and creation of a Ponzi scheme, which has resulted in police seizures of some 60 of the knock-off "Eleanors," ongoing investigations by law enforcement and numerous complaints by dissatisfied customers who've paid large deposits but never seen their dream "Eleanors."

(http://www.nytimes.com/2007/11/25/automobiles/collectibles/25SHELBY.html?_r=1&ref=collectibles&oref=slogin;

http://www.dallasnews.com/sharedcontent/dws/news/city/carrollton/stories/DN-uniqueperformance_26bus.ART0.State.Edition1.2d720ef.html.) This spreads a

dark cloud over everyone associated with “Eleanor,” even an innocent rightful copyright and trademark owner such as Halicki.

D. Compensation And Deterrence.

Somewhat incredibly, the Shelby Defendants argue they should have received compensation “for the damage to [their] reputation.” (AA 69.) The defendants have received millions of dollars for a product they didn’t create, and profited from a copyright they don’t own and a trademark they have wrongfully wrested away from the rightful owner. How they could be entitled to any, let alone more “compensation” is hard to fathom.

The only support they cite for this implausible argument is *Diamond Star Bldg. Corp. v. Freed*, 30 F.3d 503, 506 (4th Cir. 1994). (AA 69.) But there the district court held a full trial *on the merits* and dismissed the plaintiff’s copyright complaint, stating it was a frivolous ““piece of litigation that should never have been brought.”” *Diamond Star*, 30 F.3d at 506. The Fourth Circuit reversed the court’s denial of attorneys’ fees, in part, because awarding such fees could deter such frivolous litigation. *Id.* Here, however, the District Court determined Halicki’s copyright claim was not frivolous, and explained (in fact, emphasized) that Halicki’s claims were being dismissed on standing, “not on whether the Shelby Defendants are in fact, copyright infringers.” (SER 151.)

The only party that needs to be compensated here is Halicki and the only party that needs to be deterred are the infringing defendants.

* * * * *

Given that all those factors favor Halicki, the District Court did not abuse its discretion in denying the Shelby Defendants attorneys’ fees on Halicki’s copyright claim. In fact, it is hard to imagine how—in this situation—this Court could conclude that ““no reasonable man (or woman) would take the view adopted by the trial court.”” *Golden Gate Hotel*, 18 F.3d at 1485.

II. THE DISTRICT COURT DID NOT ABUSE ITS DISCRETION IN DENYING THE SHELBY DEFENDANTS ATTORNEYS' FEES ON HALICKI'S TRADEMARK CLAIMS.

The Lanham Act provides that a “court in exceptional cases may award reasonable attorney fees to the prevailing party.” 15 U.S.C. § 1117(a). This Court has defined an “exceptional case” as one where ““a plaintiff’s case is groundless, unreasonable, vexatious, or pursued in bad faith.”” *Stephen W. Boney, Inc. v. Boney Servs., Inc.*, 127 F.3d 821, 827 (9th Cir. 1997) (quoting *Scott Fetzer Co. v. Williamson*, 101 F.3d 549, 555 (8th Cir. 1996)). Given this difficult standard, one court that denied fees to a defendant who prevailed after a jury trial noted that “[n]ot surprisingly, defendants are rarely awarded attorney fees in trademark infringement cases.” *Banff, Ltd. v. Colberts, Inc.*, 810 F. Supp. 79, 80 n.2 (S.D.N.Y. 1992).

Given the strong similarity between the “exceptional case” test and the copyright factors, we will not engage in a detailed analysis, but instead just point to several instructive decisions.

For example, this Court’s most recent pronouncement on trademark attorneys’ fees shows why Halicki’s case comes nowhere close to being “exceptional.” In *Applied Information Sciences Corp. v. eBay, Inc.*, No. 05-56123, 2007 U.S. App. LEXIS 29871 (9th Cir. 2007), this Court affirmed a summary judgment for defendant on the merits, but also affirmed the denial of attorneys’ fees. *Id.* at *2. “We agree that AIS’s case was not frivolous and that AIS raised debatable issues.” *Id.* at *17; *see also Boney*, 127 F.3d at 827 (given the ambiguity in the governing agreements, plaintiff’s claim was not frivolous and raised debatable issues even if defendant won on summary judgment). Here, contrary to the defendants in *Applied Information* and *Boney*, the Shelby

Defendants didn't even win on the merits, so it is even easier to conclude that Halicki's claim was not frivolous and raised debatable issues.

In affirming the denial of fees to a defendant prevailing on summary judgment, the Eighth Circuit concluded that since "there is some evidence in the record to support [the plaintiff's] claims," the case could not be seen as an "exceptional" one. *Scott Fetzer*, 101 F.3d at 555; *see also Olsonite Corp. v. Bemis Mfg. Co.*, 610 F. Supp. 1011, 1026 (E.D. Wis. 1985) ("case is not so one-sided" as to conclude "plaintiff acted frivolously or in bad faith in bringing this action"). Given that defendants here don't justify their unauthorized use of Halicki's marks, "Eleanor" and "Gone in 60 Seconds," other than to say—"Well, maybe Disney has a right to sue us, but you don't"—this case is not remotely one of those completely one-sided cases where the only conclusion is that the plaintiff sued frivolously.

* * * * *

The Shelby Defendants have, in no way, established that the District Court abused its discretion in denying them attorneys' fees on Halicki's trademark claims.

III. THE SHELBY DEFENDANTS PROVIDE NO CREDIBLE SUPPORT FOR THEIR ALLOCATION OF ATTORNEYS' FEES.

The Shelby Defendants acknowledge that three of Halicki's nine claims did not relate to copyright or trademark infringement, nor did Shelby's counterclaim. (AA 73.) Nevertheless, they contend that 9/10ths of their fees should be allocated to Halicki's copyright and trademark claims. (*Ibid.*) The only support for this allocation is the Shelby Defendants' lawyer's statement that he "estimate[d] that the amount of services . . . for relief unrelated to the copyright and trademark infringement claims and to the prosecution of the

counterclaims amounts to less than one-tenth of the total.” (SER 123:26-124:1.) That self-serving “estimate” is insufficient to support this allocation. *See, e.g., Diver v. Goddard Memorial Hosp.*, 783 F.2d 6, 8 (1st Cir. 1986) (“conclusory assertion by affidavit that 95 percent of [counsel’s] time was devoted to [winning] issue” was insufficient for § 1983 fee award).

CONCLUSION RE: ATTORNEYS’ FEES APPEAL (NO. 06-55806)

The District Court’s denial of attorneys’ fees to the Shelby Defendants did not even approach the “arbitrary, fanciful or unreasonable” judicial action required to show an abuse of discretion. *Golden Gate Hotel*, 18 F.3d at 1485. This Court should affirm that rejection of attorneys’ fees.

Dated: January 28, 2008

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CERTIFICATE OF COMPLIANCE

PROPORTIONATE

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), I certify that the Combined Appellants' Reply Brief/Cross-Appellees' Brief is proportionately spaced, has a typeface of 14 points or more, and contains 13,883 words.

Dated: January 28, 2008

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