ESTTA Tracking number:	**ESTTA327273**
Filing date:	**01/15/2010**

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Proceeding	91187261
Party	Defendant Disney Enterprises, Inc.
Correspondence Address	Mark E. Miller O'Melveny & Myers LLP Two Embarcadero Center, 28th FL San Francisco, CA 94111 UNITED STATES markmiller@omm.com
Submission	Motion to Consolidate
Filer's Name	Mark E. Miller
Filer's e-mail	markmiller@omm.com, jweader@omm.com, aechery@omm.com, smalek@omm.com
Signature	/Mark E. Miller/
Date	01/15/2010
Attachments	Opposition 91187261 Motion to Consolidate.pdf (5 pages)(17561 bytes) Exhibit A to Motion to Consolidate - Disney's Motion for Summary Judgment.pdf (41 pages)(1935251 bytes) Exhibit B to Motion to Consolidate - SSI's Opp. to Disney's Motion for Summary Judgment.pdf (50 pages)(3114602 bytes) Exhibit C to Motion to Consolidate - Disney's Reply in Support of Motion for Summary Judgment.pdf (32 pages)(1642004 bytes) Exhibit D to Motion to Consolidate - Order re Supplemental Briefing.pdf (3 pages)(13884 bytes) Exhibit E to Motion to Consolidate - Disney's Supplemental Opening Brief.pdf (31 pages)(179808 bytes) Exhibit F to Motion to Consolidate - SSI's Opposition to Disney's Supplemental Opening Brief.pdf (31 pages)(239159 bytes) Exhibit G to Motion to Consolidate - Disney's Reply in Support of Supplemental Brief.pdf (27 pages)(135974 bytes) Exhibit H to Motion to Consolidate - Order Granting in Part Counter-Defendant's Motion for SJ.pdf (5 pages)(28288 bytes) Exhibit I to Motion to Consolidate - Disney's Motion for Summary Disposition.pdf (28 pages)(94275 bytes) Exhibit J to Motion to Consolidate - SSI's Opposition to Disney's Motion for Summary Disposition.pdf (34 pages)(125717 bytes) Exhibit K to Motion to Consolidate - Disney's Reply in Support of Motion for Summary Disposition.pdf (31 pages)(125551 bytes) Exhibit L to Motoin to Consolidate - Order Granting Counter-Defendant's Motion for SJ et al.pdf (13 pages)(49936 bytes) Exhibit M to Motion to Consolidate - Final Judgment.pdf (4 pages)(22457 bytes) Exhibit N to Motion to Consolidate - Notice of Appeal by SSI.PDF (4 pages)(79421 bytes)

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

STEPHEN SLESINGER, INC., Opposer, v. DISNEY ENTERPRISES, INC., Applicant.	Opposition No. 91187261 Mark: POOH Application Nos. 77/189475, 77/487303, 77/487298

MOTION TO CONSOLIDATE
OPPOSITION NOS. 91188860, 91187261, 91186026, 91179064, 91182358, 91183644, 91191230, AND 91192691 AND CANCELLATION NO. 92046853

I. INTRODUCTION

The Trademark Trial and Appeal Board's December 18, 2009 order indicated that consolidation may be appropriate. (Order at 5.) Consequently, Applicant Disney Enterprises, Inc. ("Disney") hereby moves to consolidate the above-referenced opposition and cancellation proceedings pursuant to TBMP § 511 and Federal Rule of Civil Procedure 42(a).

All of the opposition and cancellation proceedings filed by Stephen Slesinger, Inc. ("SSI") turn on the common legal issue of ownership of rights to trademarks derived from the Winnie the Pooh works ("Pooh Works"), and in particular whether a final judgment issued in a federal court action between the parties precludes SSI from relitigating this issue before the Board.[1] In that federal court action, SSI filed trademark infringement claims against Disney alleging that SSI owned the rights to the Pooh Works. The United States District Court for the Central District of California ruled that "under the clear terms of the [SSI and Disney] agreements, SSI transferred *all* of its rights in the Pooh works to Disney" and SSI "*retained no*

[1] As requested in the Board's December 18, 2009 order, Appendix 1 identifies and attaches relevant pleadings from the federal court action. (Order at 4-5.)

rights." (Ex. L at 8, 3 (emphases added).) Based on that ruling, the district court dismissed SSI's claims and entered final judgment on October 7, 2009. (Ex. M.) Under the doctrine of collateral estoppel, the district court's rulings are final and binding on SSI and Disney. Nonetheless, SSI wrongfully seeks to oppose and cancel Disney's trademark registrations and applications covering the Pooh Works. Disney has moved to dismiss these proceedings on the ground that SSI is collaterally estopped from asserting that it owns rights in the Pooh Works – an issue that was "actually litigated" and "necessarily decided" in the federal court action. Because the opposition and cancellation proceedings are based on this common legal issue, consolidation is appropriate.

II. CONSOLIDATION IS WARRANTED AND WILL AID THE BOARD'S CONSIDERATION OF THESE PROCEEDINGS

"When cases involving common questions of law or fact are pending before the Board, the Board may order the consolidation of the cases." TBMP § 511; *see also* FED. R. CIV. P. 42(a). In considering whether consolidation is appropriate, the Board will consider the identity of parties, the similarity of marks, and whether consolidation would conserve resources and prevent unnecessary expense. *See id.*; *World Hockey Ass'n v. Tudor Metal Prods. Corp.*, 185 USPQ 246, 248 (1975) (holding consolidation appropriate because "opposer [had] in each instance challenged applicant's right of registration on the basis of its ownership[.]")

All of the criteria for consolidation are present here. The parties are identical and the marks at issue all derive from the Pooh Works, the rights to which were addressed by the district court. (*See* Notice of Opposition (filed Oct. 31, 2008); *compare* Notices of Opposition in Oppositions No. 91188860, 91186026, 91179064, 91182358, 91183644, 91191230, and 91192691 *with* Exs. L-N). The opposition and cancellation proceedings present a common issue of law: the ownership of rights to trademarks derived from the Pooh Works, and whether the district court's final judgment determining that Disney owns all of the rights in the Pooh

Works—and that SSI owns no rights in the Pooh Works—has collateral estoppel effect.[2] Because all of the proceedings turn on the same legal issue, the pleadings filed by both parties in the various proceedings are nearly identical. (*See* Disney's Notice of Final Determination in a Civil Action (filed Oct. 8, 2009); SSI's Response (filed Oct. 29, 2009); and Disney's Reply (filed Nov. 18, 2009).) These circumstances make consolidation particularly appropriate. *See S. Indus., Inc. v. Lamb-Weston, Inc.*, 45 USPQ2d 1293, * 6 (TTAB 1997).

III. CONCLUSION

It is beyond question that consolidation will avoid further duplication of effort and ensure consistency. Because the opposition and cancellation proceedings turn on a common question of law, involve identical parties, and implicate related marks, Disney respectfully requests that the Board consolidate these proceedings.

Dated: January 15, 2010

Respectfully submitted,

By: /s/ Mark E. Miller
Mark E. Miller (Reg. No. 31,401)

O'MELVENY & MYERS LLP
Two Embarcadero Center, 28th Floor
San Francisco, California 94111-3823
Phone: 415.984.8700
Fax: 415.984.8701
Email: markmiller@omm.com

Attorneys for Disney Enterprises, Inc.

---

[2] That SSI has appealed the district court's order does not change the preclusive effect of those rulings. "[T]he preclusive effects of a lower court judgment cannot be suspended simply by taking an appeal that remains undecided." *Robi v. Five Platters, Inc.*, 838 F.2d 318, 327 (9th Cir. 1988) (internal citation omitted). In applying Eleventh Circuit law, the Federal Circuit has stated that "for purposes of issue preclusion[,] 'final judgment' includes any prior adjudication of an issue in another action that is determined to be sufficiently firm to be accorded conclusive effect." *Dana v. E.S. Originals, Inc.*, 342 F.3d 1320, 1323 (Fed. Cir. 2003) (citations omitted). The D.C. Circuit has stated that "[i]t is well established that a lower court judgment may have preclusive effect despite the lack of appellate review." *Martin v. Dep't of Justice*, 488 F.3d 446, 455 (D.C. Cir. 2007). And the Restatement (Second) of Judgments § 13 states that "[A] judgment otherwise final remains so despite the taking of an appeal."

APPENDIX 1

Exhibit	Document	Date
A	Disney’s Motion for Summary Judgment	4.21.08
B	SSI’s Opposition to Disney’s Motion for Summary Judgment	5.12.08
C	Disney’s Reply in Support of Motion for Summary Judgment	5.27.08
D	Order re: Supplemental Briefing	6.3.08
E	Disney’s Supplemental Opening Brief	6.30.08
F	SSI’s Opposition to Disney’s Supplemental Opening Brief	7.28.08
G	Disney’s Reply in Support of Supplemental Brief	8.11.08
H	Order Granting in Part Counter-Defendants’ Motion for Summary Judgment	5.19.09
I	Disney’s Motion for Summary Disposition	7.6.09
J	SSI’s Opposition to Disney’s Motion for Summary Disposition	8.11.09
K	Disney’s Reply in Support of Motion for Summary Disposition	8.31.09
L	Order Granting Counter-Defendants’ Motion for Summary Judgment and Order Denying Counter-Claimant’s Motion for Summary Adjudication	9.25.09
M	Final Judgment	10.7.09
N	Notice of Appeal by SSI	11.5.09

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and complete copy of the foregoing Motion to Consolidate with exhibits has been served upon counsel for Opposer by mailing said copy via First Class mail on this January 15, 2010, to the following address:

Andrew D. Skale, Esq.
Mintz Levin Cohn Ferris Glovksy and Popeo, PC
3580 Carmel Mountain Road, Suite 300
San Diego, California 92130

/s/ Alexandra Echery
Alexandra Echery

EXHIBIT A

DANIEL M. PETROCELLI (S.B. #97802)
dpetrocelli@omm.com
ALAN RADER (S.B. #45789)
arader@omm.com
VICTOR JIH (S.B. #186515)
vjih@omm.com
JUSTIN M. GOLDSTEIN (S.B. #198858)
jgoldstein@omm.com
O'MELVENY & MYERS LLP
1999 Avenue of the Stars, 7th Floor
Los Angeles, CA 90067-6035
Telephone: (310) 553-6700
Facsimile: (310) 246-6779

Attorneys for Counter-Defendants DISNEY ENTERPRISES, INC., THE WALT DISNEY COMPANY, AND WALT DISNEY PRODUCTIONS

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

CLARE MILNE, an individual, by and through MICHAEL JOSEPH COYNE, her RECEIVER, and DISNEY ENTERPRISES, INC.

Plaintiffs,

v.

STEPHEN SLESINGER, INC.,

Defendant.

STEPHEN SLESINGER, INC.,

Counter-Claimant,

v.

DISNEY ENTERPRISES, INC.; THE WALT DISNEY COMPANY; and WALT DISNEY PRODUCTIONS,

Counter-Defendants.

Case No. CV-02-08508 FMC (PLAx)

COUNTER-DEFENDANTS DISNEY ENTERPRISES, INC., THE WALT DISNEY COMPANY, AND WALT DISNEY PRODUCTIONS' MOTION FOR SUMMARY JUDGMENT OR, IN THE ALTERNATIVE, FOR SUMMARY ADJUDICATION OF COUNTER-CLAIMANT STEPHEN SLESINGER, INC.'S COUNTERCLAIMS

The Hon. Florence-Marie Cooper

Date: June 9, 2008
Time: 10:00 a.m.
Place: Courtroom 750

TABLE OF CONTENTS

TABLE OF AUTHORITIES

CASES

TABLE OF AUTHORITIES
(continued)

TABLE OF AUTHORITIES
(continued)

TABLE OF AUTHORITIES
(continued)

STATUTES

RULES

TREATISES

I. INTRODUCTION.

The California courts minced no words. SSI's state court case against Disney was terminated for a "portrait of litigation misconduct run riot," so "breathtaking" that Disney could never receive a fair trial on SSI's claims. In dismissing SSI's entire case with prejudice, the trial court found, and the Court of Appeal unanimously affirmed, that SSI's principals "tampered with the administration of justice" through perjury, forgery, fraud on the court, violations of court orders, misrepresentations to the court and Disney, burglary, theft, criminal trespass, and more. The trial court condemned SSI's contempt for the judicial process in the strongest terms: "SSI is dishonest and shows no remorse."

SSI now seeks refuge in this Court. *Nothing* has changed but the courthouse. Because a terminating sanction is "on the merits," res judicata and collateral estoppel conclusively bar SSI from reasserting any claim or issue that was or could have been litigated in its state action against Disney. There is a near-perfect overlap between the claims SSI lost in the state case and its claims in this case—vividly documented by the wholesale word-for-word copying of SSI's state court allegations in the original version of its amended federal counterclaims.

Neither copyright nor trademark law rescues SSI's claims. In repeated, explicit, and binding admissions, SSI represented to Disney and the state court that it "assign[ed], grant[ed] and set[] over unto Disney" the "sole and exclusive right" to the Winnie the Pooh works. After maintaining this position for *16 years* in the state court, SSI now tells this Court something different—that it did not convey *all* of its interest to Disney, but retained an "ownership interest" in the Pooh works that Disney is infringing by exploiting them without permission. Principles of judicial estoppel—not to mention the plain language of SSI's grant of rights to Disney—flatly forbid SSI's obvious effort to manufacture federal infringement claims in defiance of contrary representations and sworn admissions in the state court.

Nor is there any remotely cognizable claim based on SSI's allegation that Disney "orchestrated" the attempted invocation by the Milne and Shepard heirs of the copyright termination rights set forth in 17 U.S.C. § 304(d). This Court invalidated the termination notices, rendering it impossible for SSI to allege facts necessary to state a claim for copyright infringement, breach of contract, or unfair business practices.

II. FACTUAL AND PROCEDURAL OVERVIEW.

A. <u>The State Court Action—SSI's Claims</u>.

In February 1991, SSI filed an action in Los Angeles Superior Court alleging that Disney had breached the 1983 Agreement. SSI's initial complaint claimed that Disney had not accurately accounted for revenue received from exploitation of the Winnie the Pooh works ("Pooh Works") and that Disney was not paying royalties based on videocassette sales. (Ex. 5.) Over the next decade, SSI progressively and dramatically expanded the scope of its claims, asserting numerous new theories for liability based on the 1983 Agreement. SSI's final state court pleading, the Supplemented Third Amended Complaint ("STAC"), alleged that Disney was obligated to pay royalties for virtually every conceivable use of the Pooh Works. (Ex. 6.) It also alleged that Disney was not accurately paying royalties on uses of the Pooh Works that both parties agreed were royalty-bearing. (*Id.*) Disney vigorously disputed these allegations: SSI's expansive claims ranged far beyond the limited rights SSI actually received from Milne in the original 1930 grant and then assigned to Disney in 1961 and again in 1983; and SSI's asserted methodologies for calculating royalties were inconsistent with the 1983 Agreement and designed only to yield unconscionable windfalls to SSI.

The parties engaged in years of discovery, including 121 deposition sessions, nearly 500 requests for admissions, over 1,000 document demands, 15 sets of form interrogatories, and close to 2,000 special interrogatories. The trial court appointed a discovery referee, the late California Supreme Court Justice David Eagleson, to preside over all discovery proceedings. Justice Eagleson issued 50 reports and recommendations on various discovery issues. He also served as one of two referees appointed to rule on specified accounting issues. The parties filed and litigated numerous substantive motions to the trial court, including summary adjudication motions. Appellate review was pursued on a number of rulings. The case was one of the longest-running civil actions in California history. SSI changed counsel of record no fewer than 10 times.

B. <u>The State Court Action—SSI's Misconduct</u>.

In 2002, the details of serious misconduct by SSI in conducting the litigation began to come to light. By 2004, after compiling irrefutable evidence of systematic illegal and fraudulent activities by SSI, Disney moved for a terminating sanction. The motion was presented to Judge Charles McCoy during a five-day evidentiary hearing. SSI's principal Pati Slesinger, her husband David Bentson, and their private investigator Terry Sands were called to testify. So, too, were two individuals who helped carry out SSI's illegal activities: convicted felons Dale Holman, Sr. and his son Dale Holman, Jr., who as a 12-year-old boy served as a lookout during SSI's illegal document thefts. Disney also called one of the nation's leading forensic document examiners, who presented startling evidence of SSI's document fabrication and alteration. Disney presented detailed documentary proof of false testimony by SSI's principals, false verifications of discovery responses, and false and fraudulent representations to the court. The raw, ugly facts revealed a depth of deceit rarely—if ever—witnessed in litigation.

On March 29, 2004, Judge McCoy issued a 28-page Statement of Decision dismissing SSI's case in its *entirety* with prejudice. (Ex. 8; Ex. 8A.) The court decisively found that SSI had "tampered with the administration of justice and threatened the integrity of the judicial process" by, among other illicit actions, stealing documents from Disney, altering documents in discovery to conceal their privileged and confidential nature, lying in interrogatory responses, depositions, and court testimony to cover up its fraudulent and criminal activities, and defying discovery obligations and court orders. Especially important to the present motion, the trial court found that "the full sweep" of SSI's misconduct can never be known, and that "SSI cannot give any sort of satisfactory accounting" of what it stole and the privileged information it improperly obtained. (*Id.* at 2.) SSI admitted taking Disney documents without creating a record of their numbers or contents. Based on "[d]eceptions surrounding SSI's piecemeal and grudging production of Disney documents," the court found that "SSI likely still possesses additional Disney material."[1] (*Id.*)

All this and more led the trial court to emphatically conclude it was impossible for Disney to receive a fair trial:

> SSI's misconduct is so egregious that no remedy short of terminating sanctions can effectively remove the threat and adequately protect both the institution of justice and [Disney] from further SSI abuse . . . . *The Court does not believe SSI will comply fully with any future remedial order if SSI concludes, as it apparently has in the past, that compliance with a court order does not serve its private tactical objectives.* SSI's willingness to tamper with, and even corrupt, the litigation process constitutes a substantial threat to the integrity of the judicial process—a threat requiring decisive, effective and stern sanctions to fully protect the institution of justice, its processes and its litigants from future abuse.

(Ex. 8 at 1, 3 (emphasis added).)

---

[1] As the trial court found, SSI's wrongdoing in the state case, including the presentation of false testimony and altered evidence to Disney and the court, continued even after commencement of this federal action in November 2002. (*See generally* Ex. 8; *Stephen Slesinger, Inc. v. Walt Disney Co.*, 155 Cal. App. 4th 736, 741-57; 767-76 (2007).)

The court's terminating sanction was unanimously upheld by the California Court of Appeal on September 25, 2007. *Stephen Slesinger, Inc. v. Walt Disney Co.*, 155 Cal. App. 4th 736 (2007). In a sweeping 41-page opinion, the appellate court reaffirmed the trial court's findings of fact, fully agreeing that in view of "SSI's history of misconduct," the likelihood it possessed additional "illicitly-obtained documents," and its principals' "history of duplicity or deliberate indifference to the truth," there was no way to restore fairness to the legal proceedings between SSI and Disney. *Id.* at 773. "*Simply put, the trial court was not required to gamble its ability to provide a fair trial on SSI's turning over a new leaf.*" *Id.* at 775 (emphasis added). In upholding the trial court's inherent authority to terminate the case, the appellate court held that "[t]he demise of SSI's lawsuit has one cause only: the deliberate and egregious misconduct of SSI itself, making any sanction other than dismissal inadequate to ensure a fair trial." *Id.* at 776. On January 3, 2008, the California Supreme Court denied SSI's petition for review. The state court judgment thereby became final.

C. <u>The Litigation in this Court</u>.

After Congress amended the Copyright Act in 1998 to provide authors and their heirs a new right to terminate copyright interests transferred to third parties, a representative of Milne's granddaughter approached Disney concerning her intention to exercise that new right of termination. To protect its very substantial investment in the Pooh Works, Disney agreed to buy any rights successfully recaptured by Milne from SSI. Milne's representative later contacted Shepard's sole living heir, Minette Hunt, and arranged for her, too, to exercise her termination right and assign any recaptured rights to Disney.

In 2002, therefore, Milne and Disney commenced this action for a declaration validating Milne and Hunt's termination notices and ensuing grants of rights to Disney. SSI filed a third-party complaint against Hunt and counterclaims against Disney. This Court found, however, that both Milne and Hunt's termination notices were ineffective and dismissed as moot SSI's counterclaims to the extent they relied on the validity of the notices.

D. SSI's Remaining Counterclaims.

Through its first three iterations, SSI's counterclaims centered on its contention that Disney had induced the Milne and Shepard heirs to attempt to exercise their rights of termination. That issue became moot when this Court held the terminations were not effective.

In 2006, while its appeal from the state court judgment was pending, SSI asked Disney to stipulate to the filing of a Fourth Amended Answer and Counterclaims ("FAAC"). SSI sent Disney a proposed pleading that was a virtual restatement of SSI's state court complaint—nearly all of pages 34 to 38 of the draft FAAC were cut and pasted from the STAC. In reasserting its state court allegations and claims, SSI took the position—contrary to law—that the state court judgment presented no impediment to relitigation in federal court, alleging "[t]here was no final adjudication of the merits in the 1991 State Court Action and the 1991 State Court Action does not preclude the claims herein stated." (Ex. 11 ¶ 85.)

Because SSI's proposed counterclaims were barred by the state court judgment, Disney would not stipulate to their filing. (Goldstein Decl. ¶ 14.) SSI responded with a Motion to Amend the Answer and Counterclaims. Hoping to avoid the dispositive impact of the state court judgment, SSI rewrote its proposed counterclaims by replacing the cut and pasted state allegations with conclusory, generic allegations, such as: "[d]uring the relevant time, Disney has committed material breaches of the 1983 Agreement." (*Compare* Ex. 11 ¶ 168 *with* Ex. 12 ¶ 147.) It also added the self-serving allegation that: "[SSI] is not asserting any claims which it is estopped from bringing due to the 1991 State Court Action." (Ex. 12 ¶¶ 145, 160, 172; *see also id.* ¶ 76.)

E. Summary Disposition Is Appropriate.

Federal Rule of Civil Procedure 56(a) requires summary judgment or adjudication where there is "no genuine issue as to any material fact." Once the moving party has shown the absence of a genuine issue of material fact, the burden shifts to the opposing party to produce admissible evidence sufficient to justify a verdict on its behalf. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 256 (1986); *Celotex v. Catrett*, 477 U.S. 317 (1986). The opposing party "must do more than simply show that there is some metaphysical doubt as to the material facts" or allege a minor factual dispute between the parties. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586 (1986); *Anderson*, 477 U.S. at 252. Only genuine disputes over issues that would affect the outcome of the litigation will preclude summary judgment. *United States v. Dahan*, 369 F. Supp. 2d 1187, 1189-90 (C.D. Cal. 2005).

Because SSI's counterclaims are barred by principles of preclusion and estoppel and otherwise fail to state a claim for relief, Disney moves for summary judgment or, in the alternative, for summary adjudication, on all of SSI's remaining counterclaims.[2] As first addressed below, the following counterclaims are barred on grounds of *res judicata* and *collateral estoppel*:

- Fourth Counterclaim: Breach of Contract (*see infra* pp. 8-22)
- Fifth Counterclaim: Breach of Implied Covenant of Good Faith and Fair Dealing (*see infra* pp. 8-22)
- Sixth Counterclaim: Fraud (*see infra* pp. 8-22)
- Seventh Counterclaim: Declaratory Relief re: 1983 Agreement (*see infra* pp. 8-22)

---

[2] This Court dismissed SSI's Eighth (Declaratory Relief re: Invalidity of Hunt Notice), Ninth (Declaratory Relief re: Invalidity of Reversion Agreement), and Eleventh (Declaratory Relief re: Limited Scope of Hunt Notice) Counterclaims as moot on March 27, 2007. (Ex. 85.) As explained *infra* p. 34, SSI's Tenth Counterclaim (Injunctive Relief) is a remedy rather than a claim for relief.

The next portion of this motion demonstrates that the following counterclaims are barred by the doctrine of *judicial estoppel* and otherwise *fail to state a claim for relief*:

- First Counterclaim: Copyright Infringement (*see infra* pp. 23-29, 31-32)
- Second Counterclaim: Trademark Infringement (*see infra* pp. 23-31)
- Third Counterclaim: Trade Dress Infringement (*see infra* pp. 23-31)
- Fourth Counterclaim: Breach of Contract (*see infra* p. 32)
- Fifth Counterclaim: Breach of Implied Covenant of Good Faith and Fair Dealing (*see infra* p. 32)
- Twelfth Counterclaim: Unfair Competition (*see infra* pp. 32-34)

III. SSI'S FOURTH THROUGH SEVENTH COUNTERCLAIMS ALLEGE CONTRACT-BASED CLAIMS THAT ARE BARRED BY THE STATE COURT JUDGMENT.

Res judicata and collateral estoppel are bedrock principles of American jurisprudence. Under the Full Faith and Credit Clause, a federal court must give a state court judgment "the same preclusive effect as would be given that judgment under the law of the State in which the judgment was rendered." *Migra v. Warren City Sch. Dist. Bd. of Educ.*, 465 U.S. 75, 81 (1984). Therefore, "to determine the preclusive effect of [a] California state court decision, [federal courts] apply California law." *Kay v. City of Rancho Palos Verdes*, 504 F.3d 803, 808 (9th Cir. 2007). A federal court's application of the rendering state's res judicata and collateral estoppel law not only "promote[s] the comity between state and federal courts that has been recognized as a bulwark of the federal system," but "fulfill[s] the purpose for which civil courts had been established, the conclusive resolution of disputes within their jurisdiction." *Kremer v. Chemical Const. Corp.*, 456 U.S. 461, 467 n.6 (1982) (internal citations omitted).

Protecting the finality of a state court judgment is essential—especially here. As the California courts held, SSI's misconduct made impossible Disney's right to a fair adjudication of SSI's claims. That conclusion applies equally to this case. Given SSI's decision to resort to illegal and fraudulent means to litigate the underlying facts, issues, and claims, the long record of the state case—depositions, documents, written discovery, motions, witness interviews, strategic considerations—is forever inextricably intertwined with SSI's fraud. As the trial court found: "*SSI contaminated itself, and the contamination is incurable.*" (Ex. 8 at 23 (emphasis added).) Because SSI was "imbued" with ill-gotten information, nothing short of termination could "guard against the conscious or subconscious application of SSI's knowledge in shaping the future course of the litigation and its outcome," or "preserve and protect the integrity of the judicial process." (Ex. 9 at 3; Ex. 8 at 1.) Switching courtrooms on the same claims or facts does not enable SSI to escape the consequences of its misconduct, evade the conclusive effect of the terminating sanction, or destroy the *only* remedy the state courts found could "adequately protect both the institution of justice and [Disney] from further SSI abuse." (Ex. 8 at 1.) Res judicata and collateral estoppel, supported by the constitutional requirement of Full Faith and Credit, forbid such a result.

A. Res Judicata Bars All of SSI's Contract-Based Claims.

The California Supreme Court recently explained the basic principles of preclusion in California:

> Res judicata describes the preclusive effect of a final judgment on the merits. Res judicata, or claim preclusion, prevents relitigation of the same cause of action in a second suit between the same parties . . . . Collateral estoppel, or issue preclusion, precludes relitigation of issues argued and decided in prior proceedings.

Mycogen Corp. v. Monsanto Co., 28 Cal. 4th 888, 896 (2002) (internal citation and quotations omitted). Res judicata precludes relitigation of the same cause of action, even if on a different legal theory or for different relief. *Weikel v. TCW Realty Fund II Holding Co.*, 55 Cal. App. 4th 1234, 1245 (1997). Therefore, res judicata extends not only to bar claims that were actually litigated, but also to those that "could have been litigated." *Mycogen,* 28 Cal. 4th 888 at 896; *see Monterey Plaza Hotel Ltd. Pshp. v. Local 483 of the Hotel Employees Union*, 215 F.3d 923, 928 (9th Cir. 2000). When the parties are the same, the res judicata inquiry involves only two questions: (1) was there a final judgment on the merits; and (2) if so, were the claims that "merged into the judgment" the same as those in the present case? *See Mycogen*, 28 Cal. 4th at 896; *Le Parc Cmty. Ass'n v. Workers' Comp. App. Bd.*, 110 Cal. App. 4th 1161, 1169-70 (2003).

1. There Was a Final Judgment on the Merits Against SSI.

In California (as in the federal system), a dismissal with prejudice imposed as a terminating sanction is both final and "on the merits." *Kahn v. Kahn*, 68 Cal. App. 3d 372, 384, 387 (1977); *Franklin Capital Corp. v. Wilson*, 148 Cal. App. 4th 187, 207 (2007) ("[D]ismissals pursuant to terminating sanctions for discovery disobedience are *with* prejudice and res judicata.") (emphasis in original).[3] Terminating sanctions are given preclusive effect for the obvious reason that a party's litigation misconduct reflects on the substantive merits of its case and "is tantamount to an admission that the disobedient party really has no meritorious claim or defense to the action." *Kahn*, 68 Cal. App. 3d at 382. It would defeat entirely the purpose of terminating sanctions to allow such cases to "arise phoenixlike in new actions based on the same allegations." *Id.* at 383.

Kahn arose in the context of termination for discovery violations. SSI's misconduct was infinitely more severe. Having resorted to "wilful, tactical, egregious and inexcusable" misconduct and been adjudged "dishonest and show[ing] no remorse," (Ex. 8 at 27-28) SSI cannot wipe out 16 years of litigation by simply re-filing down the street. "To permit such a party to suffer no

[3] *Accord del Campo v. Kennedy*, 491 F. Supp. 2d 891, 902 (N.D. Cal. 2006) ("The phrase 'final judgment on the merits' is often used interchangeably with 'dismissal with prejudice' .... The Court dismissed Plaintiff's ... claims with prejudice; this constitutes a 'final judgment' for purposes of res judicata.").

consequences other than the delay of filing a new action after his first has been dismissed would seem to be an absurdity." *Kahn*, 68 Cal. App. 3d at 383.

2. SSI's Claims Here Mirror Exactly Its State Court Claims.

In California, to "determine whether claim preclusion bars another action or proceeding, courts look to whether the two proceedings involve the same cause of action." *Alpha Mech., Heating & Air Conditioning, Inc. v. Travelers Cas. & Sur. Co. of Am.*, 133 Cal. App. 4th 1319, 1326-27 (2005). The preclusive reach of a final judgment on the merits is not left to how a party labels its causes of action. Instead, whether two different cases concern the same cause of action is determined though a "primary right" analysis. *Mycogen*, 28 Cal. 4th at 904. Under that analysis, each cause of action is comprised of the plaintiff's primary right, the defendant's primary duty, and an alleged wrongful act by the defendant that breaches its duty. The "right to performance of a contractual obligation" is a standard example of a primary right. *Olsen v. Breeze, Inc.*, 48 Cal. App. 4th 608, 625 (1996).

Typically, primary rights questions reach appellate courts because the claims in the two cases are facially distinguishable—for example, breach of contract versus negligence in *Alpha* and defamation versus RICO in *Monterey Plaza*. Here, the primary rights analysis is straightforward because there is a match between SSI's Fourth, Fifth, Sixth and Seventh Counterclaims, on the one hand, and SSI's state claims, on the other. The primary right at issue in both cases is SSI's contention that Disney failed in a variety of ways to meet its obligations under the 1983 Agreement. Res judicata attaches to SSI's Fourth through Seventh Counterclaims since they reassert the same claims that were merged with the state court judgment.

This result is not altered simply because Disney has the continuing duty to pay royalties to SSI. Res judicata fully applies to bar claims of continuing breach under a contract calling for ongoing installment payments where, as here, "the plaintiff is seeking to establish his right to receive the payments." *Mezey v. State of Cal.*, 161 Cal. App. 3d 1060, 1064 (1984). When "the existence, validity or construction of a contract . . . has been adjudicated in one action it is *res judicata* when it comes again in issue in another action." *Smith v. Los Angeles*, 190 Cal. App. 2d 112, 127 (1961) (emphasis in original); *see also Legg v. Mut. Ben. Health & Accident Ass'n*, 184 Cal. App. 2d 482, 486-87 (1960) ("A determination in a prior action as to relative rights and duties of a party to a contract in controversy is conclusively fixed by the judgment insofar as such rights and duties were within the issues raised and were actually or by necessary inference adjudicated.").

The mirror image between SSI's state and federal claims is illustrated in the comparison below. For the Court's convenience, Disney's [Proposed] Statement of Uncontroverted Facts and Conclusions of Law supplements the comparisons below with illustrations of how SSI's contract-based claims in the Fourth through Seventh Counterclaims were repeatedly addressed in the parties' long state court litigation.

Fourth Counterclaim — "Breach of Contract"

(FAAC ¶¶ 144-158)

In the state case, SSI asserted that the 1983 Agreement obligated Disney to pay royalties to SSI—instead of the Milne Estate—on a wide range of uses; it also argued that royalties should be calculated based on a reading of the 1983 Agreement that Disney asserted was wildly at odds with the language of the Agreement and Disney's longstanding application of the specified royalty provisions. SSI's same contentions are repeated in its Fourth Counterclaim.

- **Alleged Entitlement to Additional "Commercialization" Royalties**

State Complaint	Fourth Counterclaim
SSI claimed entitlement to royalties for all "commercialization" of the Pooh Characters. (¶ 11(d).) SSI defined "commercialization" to include "all forms of commercial exploitation of such characters, except forms expressly excluded by the [1983] agreement." (*Id.*)	SSI claims entitlement to royalties for all "commercialization" of the Pooh Characters. (¶ 71.) SSI's draft FAAC defines "commercialization" to include "all forms of commercial exploitation of the characters, except forms expressly excluded by the 1983 Agreement." (Ex. 11 ¶ 169(b).)

SSI's "commercialization" claim derives from a reference in the 1983 Agreement to the "manufacture, publication, sale and/or other commercialization" of "items, things and services." (Ex. 2 ¶ 10(a).) SSI seizes on this language—which concerns the means by which the assigned rights can be exploited—to advance a radically expansive scope of its rights and Disney's concomitant royalty obligations. This contention was litigated in the state case, including in SSI's unsuccessful Motion for Summary Adjudication re: Commercialization (Ex. 59; Ex. 63), and is pursued again in this case. It is precluded by the state court judgment.

- **Alleged Entitlement to "Double-Dip" Royalties**

State Complaint	Fourth Counterclaim
SSI claimed entitlement to "a separate royalty in respect of each separate revenue stream received by Disney," wholesale and retail. (¶ 11(e).)	SSI claims entitlement to separate royalties from each of "two royalty bearing revenue streams," wholesale and retail. (¶¶ 149-52.)

Typically, Disney receives a "wholesale" royalty payment from a licensee who contracts with Disney for the right to manufacture and sell Pooh merchandise to a third-party retailer, who then sells the merchandise to the public. In some instances, Disney itself purchases Pooh merchandise from licensees to sell at its own retail shops. In the state case, SSI claimed it was entitled to two separate royalty payments in this second scenario: one on the wholesale license transaction and another on the retail transaction. Disney responded that this was double-counting and contrary to the terms of the 1983 Agreement, which requires payment on an item-by-item basis—not on the basis of different royalty streams. (Ex. 2 ¶¶ 10(b)(3)(i), 10(b)(3)(v).) SSI unsuccessfully sought summary adjudication on this claim. (Ex. 32; Ex. 45.) SSI is precluded from relitigating it here.

- **Alleged Entitlement to "Royalty-on-Royalty" Payments**

<u>State Complaint</u>	<u>Fourth Counterclaim</u>
SSI claimed that Disney was required by the 1983 Agreement to "pay royalties to [SSI] based on a percentage of the gross revenue" of "Disney, its affiliates and entities in its behalf." (¶¶ 9, 11(b), (e).)	SSI claims Disney is required by the 1983 Agreement to "pay royalties [to SSI] based upon gross amounts actually received by Disney, an affiliated company, or any person or party in its behalf." (¶ 147.)

In the state case, SSI's royalty-on-royalty claim was another attempt to substantially increase its royalty payments through double-counting. The 1983 Agreement entitles SSI to royalties on gross amounts "actually received" by Disney, its affiliates, and a party acting "in Disney's behalf." (Ex. 2 ¶ 10(a).) SSI argued that all the revenues received by licensees of Disney from sales of Pooh merchandise to third-party retailers should be considered receipts "in Disney's behalf" and subject to a royalty. Disney disputed this position, because the 1983 Agreement only requires payment of royalties to SSI on sums "actually received" by Disney, not by unaffiliated licensees. (*Id.*) Since this claim was litigated in the state case, it, too, is barred by the state court judgment.

- **Alleged Entitlement to New Uses**

State Complaint	Fourth Counterclaim
SSI claimed entitlement to royalties for "home use of video cassettes, DVDs and other similar devices," "computer software or similar products," "the exploitation of Pooh Characters on the internet," and "exploitation employ[ing] some form of new technology." (¶ 11(a), (g)-(i).)	SSI claims Disney failed to "pay royalties based on gross amounts actually received." (¶ 147.) SSI's draft FAAC explains that it still specifically claims entitlement to royalties for "home use of video cassettes, DVD and other similar devices," "computer software or similar products," "the exploitation of Pooh Characters on the internet," and "exploitation employ[ing] some form of new technology." (Ex. 11 ¶ 169.)

In state court, SSI claimed entitlement under the 1983 Agreement to royalties on various new technological uses of the Pooh Works. Disney disagreed, explaining that the Agreement defines the scope of royalty-bearing items in the same terms as the parties' original 1961 Agreement, which has no reference to "videocassettes," "computer software," "internet," or "new technology." Moreover, in negotiating the 1983 Agreement, Disney expressly rejected SSI's proposal to add a royalty obligation for new uses. Since this claim was litigated in the state case, it is barred from relitigation here.

- **Alleged Breaches of Separate Character Accounting Obligations**

State Complaint	Fourth Counterclaim
SSI claimed that Disney "failed to segregate Pooh revenues," "misallocated to other characters revenues that were properly allocable to Pooh," and failed to require its licensees to "account separately for all uses of the Pooh Characters." (¶ 11(k)-(m).)	SSI claims Disney is "failing to segregate [Pooh] revenues," "under-allocating the share attributable to the Pooh [Characters]," and failing to implement the accounting controls to "separately . . . accumulate and report royalties" and allowing its licensees to "commingle their accounting." (¶¶ 59-60, 74, 147.)

In state court, SSI claimed that Disney's methodology for segregating Pooh revenues violated the terms of the 1983 Agreement. SSI likewise claimed the Agreement required Disney to implement additional accounting and licensing controls. These claims are repeated nearly verbatim in its Fourth Counterclaim and cannot be relitigated.

- **Alleged Entitlement to Royalties on Advances & Guarantees**

State Complaint	Fourth Counterclaim
SSI claimed that Disney should pay royalties for "non-returnable advances, guarantees, and usage fees." (¶ 11(f).)	SSI claims Disney should pay royalties for "irrevocable advances and guarantees." (¶ 153.)

SSI alleged in state court, and re-alleges in its Fourth Counterclaim, that Disney's method for calculating royalties on advances and guarantees received by Disney breached the 1983 Agreement. This claim is barred by res judicata.

- **Alleged Entitlement to Royalties on Strategic Alliances & Exchanges**

State Complaint	Fourth Counterclaim
SSI claimed Disney should pay royalties for "strategic alliances" and engaged in improper exchanges with "partners" acting "in its behalf," including "The Oriental Land Company" for "Tokyo Disneyland." (¶ 11(b), (c).)	SSI claims Disney should pay royalties for "strategic alliances" and engaged in improper exchanges with "Disney 'partners' who are 'in behalf of' parties (e.g., Oriental Land Company for Tokyo Disney[)]." (¶ 156.)

In state court, and now in its Fourth Counterclaim, SSI asserted a right to royalties on exchanges of values through "strategic alliances" and partnerships. This claim is also barred by res judicata.

- **Alleged Entitlement to Prevent Disney from Closing Retail Sales**

State Complaint	Fourth Counterclaim
SSI claimed that Disney "failed and refused to comply with the express and implied covenants of the 1983 Agreement in numerous ways." (¶ 11.) SSI requested discovery relating to "the closing of any or all of the Disney Stores." (Ex. 72.)	SSI claims that in 1983 Disney "agreed to continue selling at retail," but "has ceased retail sales without notification and without good faith renegotiation." (¶ 154.)

In the state action, SSI sought discovery to support a claim that a reduction of Disney's retail store operations would violate its obligations under the 1983 Agreement. (Ex. 72.) Nothing in the Agreement imposes an obligation on Disney to maintain all of its retail stores, nor has Disney ever ceased selling at retail. Nonetheless, SSI repeats this claim in its Fourth Counterclaim, although it tries to vary it by adverting to an April 1983 letter from a Disney executive. (Ex. 4.) This letter does nothing to change the underlying nature of SSI's claim or to avoid the effect of res judicata—which bars claims that were actually raised or that could have been raised in a prior action.

- **Alleged Failure by Disney to Maintain Records & Permit Audits**

State Complaint	Fourth Counterclaim
SSI claimed Disney failed to "maintain accurate and complete books and records" or permit "inspection and auditing." (¶ 11(n).)	SSI claims Disney is failing "to retain records with sufficient detail," and failing to "cooperate with audits and to provide complete information regarding accounting issues." (¶ 156.)

SSI repeats its objections to Disney's record maintenance and audit procedures. These claims are subject to preclusion by the state court judgment.

- **Alleged Under-Reporting of Agreed-Upon Royalties (1983-2004)**

State Complaint	Fourth Counterclaim
SSI claimed that Disney had "under-reported the royalties due Slesinger." (¶ 11(m).)	SSI claims that Disney is "continuing its under-reporting of amounts owed to Slesinger." (¶¶ 73-74, 77, 104-05, 147.)

Disney's marketing efforts have generated nine-figure royalty payments to SSI; in 2007 alone, SSI received nearly $8.5 million from Disney. Nonetheless, SSI claimed in the state case, and asserts here, that Disney has long failed to account accurately when computing and paying royalties on items both parties agree are subject to a royalty. These accounting claims were extensively litigated in the state action and cannot be reasserted here.[4]

Fifth Counterclaim — "Breach of Implied Covenant of Good Faith and Fair Dealing" (FAAC ¶¶ 159-170)

State Complaint	Fifth Counterclaim
SSI claimed that Disney "failed and refused to comply with the express and implied covenants of the 1983 Agreement" by failing to pay the proper royalties due to Slesinger and other "numerous ways." (¶ 11.)	SSI claims that Disney "has breached the implied covenant of good faith and fair dealing in the 1983 Agreement by failing to pay the proper royalties to Slesinger and additional acts of breach." (¶ 163.)

SSI's Fifth Counterclaim for breach of the implied covenant largely reiterates the claims presented in its Fourth Counterclaim for breach of contract and is precluded on the same basis.[5] Moreover, an identical breach of covenant claim was pursued by SSI in state court.

As the result of the earlier removal and then partial remand of the state complaint, both the Fourth and Fifth Counterclaims contain an element not subject to preclusion. That is SSI's claim that Disney breached the 1983 Agreement by "orchestrating" the Milne and Shepard heirs serving SSI with a Notice of Termination of Copyright pursuant to 17 U.S.C. § 304(d). When removed, SSI's state complaint contained the same "orchestration" allegations. But this Court

[4] It is not Disney's position that every type of future accounting claim is barred by res judicata or collateral estoppel. In theory, a non-precluded claim might arise, for example, were Disney to refuse to pay future royalties due and owing under the methods and computations it has employed in rendering SSI's royalty statements. No such claim exists here, of course.

[5] To the extent SSI's Fifth Counterclaim relies on SSI's allegations of copyright infringement, trademark infringement, trade dress infringement, and Disney "orchestration" of the Milne and Hunt termination notices as the predicate unfair or unlawful acts, those matters are addressed on the merits *infra* Parts IV-VI.

struck those paragraphs before remanding the case on May 19, 2003, leaving them for adjudication by this Court. As a result, that "orchestration" claim was not present in the state case to be merged into the judgment on March 29, 2004. The nominal survival of that claim is of no moment, however, because as explained *infra* Part VI, it is deficient on its merits and ripe for summary adjudication.

Sixth Counterclaim — "Fraud"

(FAAC ¶¶ 171-177)

State Complaint	Sixth Counterclaim
SSI claimed that Disney falsely "represented that its royalty reports accurately reflected the sums due Slesinger." (¶ 36(f).)	SSI claims that Disney has given SSI royalty reports falsely representing that "all gross revenues . . . were properly reported and paid." (¶¶ 173-75).

SSI's sixth counterclaim for "fraud," like its mirror image in the STAC, asserts Disney acted with fraud in performing the 1983 Agreement. Res judicata bars this claim for the same reasons SSI's contract claims are barred. Any "attempt to distinguish the primary rights as sounding in tort or contract is irrelevant; if two actions involve the *same injury* to the plaintiff and the *same wrong* by the defendant then the *same primary right* is at stake even if in the second suit the plaintiff pleads different theories of recovery, seeks different forms of relief and/or adds new facts supporting recovery." *Alpha*, 133 Cal. App. 4th at 1332 (emphases added) (internal citation omitted).

Seventh Counterclaim — "Declaratory Relief re: the 1983 Agreement" (FAAC ¶¶ 178-181)

State Complaint	Seventh Counterclaim
SSI claimed that Disney's "material breach" of the 1983 Agreement gave SSI "the right to terminate all future rights of Disney thereunder." (¶¶ 11, 23.)	SSI claims that Disney's "material breaches" of the 1983 Agreement gives SSI the right to terminate "the grant of rights to Disney contained in the 1983 Agreement." (¶ 179-80.)

SSI's Seventh Counterclaim, as did its state complaint, seeks a declaration that Disney's alleged material breaches of the 1983 Agreement since its execution authorizes SSI to terminate that Agreement. Res judicata bars this claim.

B. Collateral Estoppel Also Independently Bars SSI from Reviving Issues Raised in the Terminated State Court Action.

The identity between the primary rights asserted by SSI both in state court and in this case means that res judicata provides a complete bar. But even assuming certain claims or issues could be characterized as non-identical (which is not the case), they are independently barred under the collateral estoppel doctrine. In California, a final judgment on the merits precludes a party from reviving any issue that was "actually litigated" and "necessarily decided" in a prior proceeding. *See Gottlieb v. Kest*, 141 Cal. App. 4th 110, 148-49 (2006).

As noted, a terminating sanction is "final" and "on the merits." *Kahn*, 68 Cal. App. 3d at 380-87. Under California law, all issues embraced by the state court judgment are considered "actually litigated" and "necessarily decided" for purposes of collateral estoppel. *See Gottlieb*, 141 Cal. App. 4th at 148-49; *Alpha,* 133 Cal. App. 4th at 1333; *Torrey Pines Bank v. Super. Ct.*, 216 Cal. App. 3d 813, 820-22 (1989).[6] A default judgment in favor of a plaintiff carries collateral estoppel effect because it establishes "the truth of all material allegations contained in the complaint in the first action, and every fact necessary to uphold the default judgment." *Gottlieb*, 141 Cal. App. 4th at 149. Plainly, this also must be true for a terminating sanction granted in favor of a defendant—otherwise, there would be an irrational disparity based solely on whether the derelict party was a plaintiff or defendant.

Such an anomalous distinction not only defies common sense, but also is at odds with California law attaching collateral estoppel effect even to voluntary dismissals with prejudice because they are "determinative of the issues in the action." *Torrey Pines*, 216 Cal. App. 3d at 820-22. In *Alpha*, the court applied collateral estoppel against a party voluntarily dismissing its claims with prejudice because if it were permitted to relitigate the same issues, "*there would be no meaning to the phrase 'with prejudice' and [the opposing party] would suffer prejudice from being forced to defend against successive suits involving matters already finally determined*." 133 Cal. App. 4th at 1334 (emphasis added) (internal citation omitted).

This reasoning is even more compelling in the context of the terminating sanction here, since SSI's grave misconduct constitutes, at a minimum, "an admission of the want of merit" of its case. *See Kahn*, 68 Cal. App. 3d at 382 (litigation misconduct "is tantamount to an admission that the disobedient party really has no meritorious claim or defense to the action"); *Hammond Packing Co. v. Arkansas*, 212 U.S. 322, 351 (1909) (refusal to provide discovery constitutes "an admission of the want of merit").

[6] California's collateral estoppel doctrine affords greater preclusive effect than the rule followed in federal courts. *See, e.g.*, *In re Palmer*, 207 F.3d 566, 568 (9th Cir. 2000). As explained *supra* p. 8, however, "to determine the preclusive effect of [a] California state court decision, [federal courts] apply California law." *Kay*, 504 F.3d at 808.

IV. SSI'S COPYRIGHT, TRADEMARK, AND TRADE DRESS CLAIMS FAIL BECAUSE IT IS *UNDISPUTED* THAT SSI GRANTED ALL OF ITS RIGHTS TO DISNEY.

SSI's First, Second, and Third Counterclaims for infringement rely entirely on SSI's assertion that it did not transfer all its ownership rights in the Pooh Works to Disney, but retained certain rights that now confer standing to sue for copyright, trademark, or trade dress infringement.[7] Disney moves for summary judgment on these counterclaims because SSI's contention is indisputably wrong under the plain terms of the parties' agreements and because SSI contended exactly the opposite throughout the state court litigation. SSI is therefore judicially estopped from reversing course in the hope of manufacturing a non-precluded basis to sue Disney.

A. SSI Conveyed All of Its Rights in the Pooh Works to Disney.

Milne and Shepard were the author and illustrator of the Pooh Works. In 1930, Milne granted Stephen Slesinger certain limited radio, television, and merchandising rights in the United States and Canada in exchange for $1,000. Slesinger apparently transferred these rights to his company, SSI. In 1961, SSI assigned all its rights to Disney. In 1983 Disney, SSI, and the Milne family entered into a new agreement where SSI reassigned all its rights to Disney. Both agreements are unambiguous in their assignment of all rights SSI held to Disney, rendering this issue ripe for summary judgment. *United States v. King Features Entm't, Inc.*, 843 F.2d 394, 398 (9th Cir. 1988) ("Summary judgment is appropriate when the contract terms are clear and unambiguous, even if the parties disagree as to their meaning.").

In paragraph 4 of the 1961 Agreement, SSI "*assigns*, *grants*, and *sets over* unto" Disney its radio and television rights, including the right "to project, exhibit

[7] *See* 17 U.S.C. § 501(a) (copyright); 15 U.S.C. § 1125(a) (trademark); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001) (copyright); *New W. Corp. v. NYM Co. of Cal., Inc.*, 595 F.2d 1194, 1201-02 (9th Cir. 1979) (trademark and trade dress).

and broadcast visually and audibly . . . by any process now known or hereafter devised analogous thereto." (Ex. 1 ¶ 4 (emphasis added).) In paragraph 5, SSI "*assigns*, *grants*, and *sets over* unto" Disney "*all of the further rights in and to said 'work'* which are set forth in Paragraph 3," subject to certain licenses with third parties that are not at issue in this case. (*Id.* ¶ 5 (emphasis added).) In short, SSI gave Disney every right that it had in exchange for royalty payments.

In 1983, the parties revoked the 1961 Agreement but simultaneously re-granted all the same rights. In the third WHEREAS clause of the 1983 Agreement, SSI acknowledges that it had "assigned those rights it had acquired from A.A. Milne to Disney by agreement dated 14 June 1961." (Ex. 2 at 1.) In paragraph 7, SSI again "*assigns*, *grants*, and *sets over* unto Disney the sole and exclusive right in the United States and Canada to project, exhibit and broadcast visually and audibly" by television, radio, "or by any process now known or hereafter devised analogous thereto." (*Id.* ¶ 7 (emphasis added).) And in paragraph 8, SSI again "*assigns*, *grants*, and *sets over* unto Disney *all of the further rights*" SSI has in the Pooh Works.[8] (*Id.* ¶ 8 (emphasis added).)

SSI alleges in paragraph 118 of its counterclaims that the "1983 Agreement conveys to Disney only those rights which are specifically set forth therein" and SSI "retained all rights *not expressly included* in the rights granted to Disney." (Ex. 12 ¶ 118 (emphasis in original).) This is directly contradicted by the provisions in the parties' Agreements quoted above, which show Disney was granted not a specific list of enumerated rights, but "all" of SSI's rights. All means all. *See Yount v. Acuff Rose-Opryland*, 103 F.3d 830, 836 (9th Cir. 1996) (under plain meaning rule, the term "all" in agreement assigning rights means "all"). And "all" includes any new forms of exploitation or new technologies, even if they are not

[8] If the Court reviews paragraph 8, it will note a typographical error. In referring to SSI's "further rights," it incorrectly references Paragraph 6 instead of Paragraph 5, which describes those "further rights." This error was corrected in an April 1, 1983 side letter. (Ex. 3.)

specifically identified. *See Maljack Prods., Inc. v. Goodtimes Home Video Corp.*, 30 U.S.P.Q.2d 1959, 1962 (C.D. Cal. 1994) (assignee has right to exploit new uses in absence of specific grant since broad assignment of "all" rights includes new technologies); 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 10.10[B] n.1.3 (2005); *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 855 (9th Cir. 1988).

B. SSI is Estopped From Disputing Its Prior Position That It Assigned All Rights.

Recognizing the clear meaning of the 1983 Agreement, SSI insisted throughout the state court litigation that it had conveyed all its ownership rights in the Pooh Works to Disney. The state court record is replete with such representations by SSI, including about the very "new" uses and "advertising" uses SSI now contends it retained. (Ex. 12 ¶¶ 120-21, 132-33, 142.) For example, in response to the state court's instruction that the parties state their positions in a Mandatory Settlement Conference Statement, SSI represented it had transferred all of the rights it acquired in the Pooh Works to Disney:

> In June 1961, SSI entered into a written agreement with Disney in which SSI licensed and assigned to Disney *the rights acquired from Milne* in the 1930 agreement . . . . On or about April 1, 1983 . . . , SSI entered into an agreement with Disney, Christopher Milne (the son of A.A. Milne) and the Trustees of the Pooh Properties Trust which incorporated the material terms of the 1961 Agreement between Slesinger and Disney, superseded that former agreement, and perpetuated the relationship beyond 1983.

(Ex. 21 at 3:22-24, 5:2-7 (emphasis added).)

In defeating Disney's motion for summary adjudication on videocassettes and other uses, SSI told the state court its grant of rights to Disney included any new uses and forms of exploitation:

> Slesinger was granted all rights to any sound, word and/or picture representation, not only by television broadcasting, but by any "representational device" or of any such "*future similar or allied devices*." When Slesinger *assigned* these rights to Disney, Disney promised to pay Slesinger royalties from their exploitation.

(Ex. 54 at 17:8-11 (emphases added).)

In its own motion for summary adjudication on commercialization, SSI reiterated that its assignment of rights included advertising and promotional uses:

> The 1930-32 agreements between SSI and Milne clearly established that SSI did acquire the *rights to promote and advertise* Winnie the Pooh directly for A.A. Milne in all media. The 1983 Agreement, in turn, confirms that *SSI granted those rights to Disney*.

(Ex. 59 at 8:16-21 (emphases added) (internal citation omitted).)

To justify its exhaustive discovery, SSI swore under oath that all of its rights were transferred to Disney. For example, in its response to Disney's Form Interrogatories Set Two, verified by SSI's principal Pati Slesinger on April 3, 1996, SSI stated:

> Slesinger exercised and exploited all of Slesinger's rights by licensing to Disney in 1961 all of the rights, including all "further rights" which Slesinger held, including rights to future means of commercial exploitation which might become viable in the future.

(Ex. 23 at 5:28-6:4.) SSI likewise stated under oath that "SSI granted Disney rights which were necessary for Disney to exploit Winnie the Pooh through the use of the Internet." (Ex. 57 at 17:22-24.)

SSI's repeated, unequivocal, and binding admissions in the state court action definitively establish that SSI did not retain any ownership rights to the Pooh Works. *See* FED. R. EVID. 801(d)(2)(A); *Barnes v. Owens-Corning Fiberglass*

Corp., 201 F.3d 815, 829 (6th Cir. 2000) (pleadings in prior case are evidentiary admissions). Hence, there is no factual predicate for SSI's infringement claims.

Independently, the doctrine of judicial estoppel forecloses SSI from now contending it retained ownership rights to the Pooh Works. That doctrine prevents a party from taking inconsistent positions in judicial proceedings where it gained an advantage in asserting the first position. *See New Hampshire v. Maine*, 532 U.S. 742, 749-51 (2001); *Britton v. Co-Op Banking Group*, 4 F.3d 742, 744 (9th Cir. 1993). An "advantage" need not be winning a final judgment; it is enough for a litigant to "benefit" from taking a position in the litigation. This includes such actions as advancing arguments to the court on a motion or other matter, taking a position to defeat or obtain discovery, or making statements to defeat summary judgment. *See, e.g.*, *Coca-Cola Co. v. Pepsi-Cola Co.*, 500 F. Supp. 2d 1364, 1379 (N.D. Ga. 2007) (element of advantage for judicial estoppel purposes satisfied where party relied on position that issue was irrelevant in order to defeat request for discovery); *In re Enron Corp.*, 349 B.R. 96, 105 n.4 (Bankr. S.D.N.Y. 2006) (element of advantage satisfied where court relied on factual statements in motion to compel and supporting stipulation in approving stipulation); *Newsome v. Lee County*, 431 F. Supp. 2d 1189, 1207 n.10 (M.D. Ala. 2006) (applying judicial estoppel where defendant successfully opposed pretrial discovery based on assertion that plaintiff had sufficient evidence to establish colorable claim); *Hall v. GE Plastic Pac. PTE, Ltd.*, 327 F.3d 391, 398-99 (5th Cir. 2003) (element of advantage satisfied whenever party makes argument "with the explicit intent to induce the district court's reliance," either in connection with preliminary matter or as part of final disposition, and whenever court "necessarily" accepts or relies on party's position in making determination) (internal citations omitted); *Kale v. Obuchowski*, 985 F.2d 360, 361-62 (7th Cir. 1993) (element of advantage satisfied where party asserted position repeatedly—at deposition, in affidavit, and in open court—during prior proceeding).[9]

Throughout the state litigation SSI pressed its position that it granted all rights to Disney to obtain many advantages: to gain broad discovery rights and favorable discovery rulings from the discovery referee and the court; to achieve substantive victories (such as defeating Disney's motions for summary adjudication); and to require Disney to endure prolonged and expensive litigation. Even apart from such advantages, judicial estoppel is essential to protect the integrity of this Court. The Ninth Circuit has emphasized the important function of judicial estoppel in preserving "the integrity of the judicial process by preventing a litigant from playing fast and loose with the courts." *Wagner v. Prof'l Eng'rs in Cal. Gov't*, 354 F.3d 1036, 1044 (9th Cir. 2004); *Hamilton v. State Farm Fire and Cas. Co.*, 270 F.3d 778, 782-83 (9th Cir. 2001); *APL Co. Pte. Ltd. v. UK Aerosols Ltd., Inc.*, 2007 WL 3225469 *6 (N.D. Cal. Oct. 30, 2007).

To now claim it retained copyright and trademark rights, SSI must repudiate its explicit representations and sworn statements in the state litigation. This is impermissible.[10] As the Seventh Circuit explained in *Carnegie v. Household Intern., Inc.*:

> If repudiation were permitted, the incentive to commit perjury and engage in other litigation fraud would be greater. A party envisaging a

---

[9] Federal law "governs the application of judicial estoppel in federal courts." *Johnson v. Oregon*, 141 F.3d 1361, 1364 (9th Cir. 1998); *see Hall*, 327 F.3d at 395 (federal law applies even in diversity action, both under *Erie* principles and because "a federal court should have the ability to protect itself from manipulation" by a litigant) (internal citations omitted).

[10] Examples abound of SSI's successes based on its asserted grant of all its rights to Disney and its concomitant claim of expansive royalty obligations. *See, e.g.*, Ex. 56 (denying Disney's Cross-Motion for Summary Judgment re: Videocassettes); Ex. 19 (granting SSI's request that Disney make supplemental productions); Ex. 35 (granting SSI's request that Disney respond to interrogatories); Ex. 68 (granting SSI's Motion to Compel); Ex. 77 (granting in part SSI's Motion to Compel); Ex. 83 (granting SSI's Motion to Compel Privilege Log); Ex. 81 (granting SSI's motion regarding enumerated special interrogatories); Ex. 82 (granting in part two motions to compel by SSI).

> succession of suits in which a change in position would be advantageous would have an incentive to falsify the evidence in one of the cases, since it would be difficult otherwise to maintain inconsistent positions.

376 F.3d 656, 660 (7th Cir. 2004). "Inconsistent positions in different suits are much harder to justify" than inconsistent pleadings within the same suit. *Astor Chauffeured Lim. Co. v. Runnfeldt Inv. Corp.*, 910 F.2d 1540, 1548 (7th Cir. 1990).

V. SSI IS NOT ENTITLED TO A DECLARATION THAT IT IS THE OWNER OF DISNEY'S REGISTERED TRADEMARKS TO THE POOH WORKS.

In Paragraph 137, SSI "seeks a declaration from this Court ordering the United States Patent and Trademark Office to correct the title of [Pooh Works] trademark registrations to Slesinger." SSI seeks this relief on the theory that it owns rights to the Pooh Works because the 1983 Agreement amounts to a license and not an assignment. Initially, this assertion bears only upon the remedy SSI requests for its trademark infringement claim. It does nothing to independently save SSI's infringement claims—whether the rights to the Pooh Works were assigned or licensed, Disney has the "right" and "permission" to use the Works.[11]

In any event, SSI's characterization of the 1983 Agreement as a license is squarely contradicted by paragraphs 7 and 8 of the Agreement, which state that SSI "*assigns*, *grants*, and *sets over*" the rights in the Pooh Works to Disney. (Ex. 2 ¶¶ 7-8 (emphasis added).) The use of the word "assign" was not an accident or loose language from inexperienced lawyers. The 1983 Agreement was a carefully crafted

[11] The only inquiry relevant to a determination of SSI's ownership interest in the Pooh Works is whether SSI's transfer of interests was complete. If so, Disney—and not SSI—has sole standing to bring copyright, trademark, and trade dress infringement claims as either an assignee or exclusive licensee. *See Essex Music, Inc. v. ABKCO Music & Records, Inc.*, 743 F. Supp. 237, 242 (S.D.N.Y. 1990) (only an exclusive licensee, and not the licensor, has standing to sue for later-occurring infringements of licensed rights).

and negotiated 18-page legal document, which in every respect manifests an assignment:

- In describing the grant, the Agreement twice uses the very term "assign." The word "license" never appears. It is noteworthy that the Ninth Circuit read the 1983 Agreement as an "assignment" in *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1040 (9th Cir. 2005).
- The 1983 Agreement has two grants: first, a grant from Milne to SSI (Ex. 2 ¶ 4); and second, a grant from SSI to Disney (*id.* ¶¶ 7-8). Both grants use the *same* language. Despite this, SSI argues that while the grant from Milne to it was an assignment, the exact same language did not result in an assignment from it to Disney. (Ex. 12 ¶ 69.) This is not remotely plausible.
- The 1983 Agreement replaced the 1961 Agreement. *See Milne*, 430 F.3d at 1040. The parties refer to the 1961 Agreement as an assignment ("Slesinger assigned those rights it had acquired") (Ex. 2 at 1), and there is nothing to suggest the parties intended to replace the assignment with a license. In fact, the 1961 Agreement refers to SSI as a "*seller*" and Disney as a "*purchaser*." (Ex. 1 at 1 (emphasis added).)
- Paragraph 11 of the 1983 Agreement refers to SSI's right to "reacquire" the rights granted to Disney. (Ex. 2 ¶ 11.) The language of reacquisition denotes a transfer of rights, not a license.
- The 1983 Agreement contains *none* of the provisions essential to a trademark license. There is no provision for continuing quality control. *See Edwin K. Williams & Co. v. Edwin K. Williams & Co.-East*, 377 F. Supp. 418, 424 (C.D. Cal. 1974). There is no provision defining what rights SSI retained or resolving potential conflicts that might arise between the parties' rights. *See ICEE Distribs. v. J&J Snack Foods Corp.*, 325 F.3d 586, 598 (5th Cir. 2003). *Contra Multimin USA, Inc. v. Walco Intern., Inc.*, 2007 WL 1686511, *3 (N.D. Tex. Jun. 8, 2007). There is no provision prohibiting Disney from

assigning its rights. *See, e.g.*, 3 ROGER M. MILGRAM, MILGRAM ON LICENSING § 28.22 (2007) (in order to "effectively restrict assignment," license agreement should contain a no assignment clause). There is no provision restricting the registration of trademarks by Disney. *Cf.* 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS § 18.64 (2008).[12]

VI. SSI'S CLAIM THAT DISNEY "ORCHESTRATED" A SCHEME TO TERMINATE ITS INTEREST IN THE POOH WORKS FAILS AS A MATTER OF LAW.

The remaining issue concerns SSI's allegation that Disney participated in an "orchestrated plan" with the Milne and Shepard heirs to terminate SSI's rights when the heirs attempted to exercise their statutory right to recapture from SSI the underlying copyright to the Pooh Works. (Ex. 12 ¶¶ 85, 88-59, 114-17.) SSI contends Disney's participation constituted copyright infringement, breach of contract, breach of the implied covenant of good faith and fair dealing, and violation of California Business and Professions Code § 17200. The Court's rulings that the termination notices were ineffective is dispositive of these claims as a matter of law, even assuming Disney initiated or improperly participated in the attempted terminations by the Milne and Hunt heirs (it did neither).

First Counterclaim—Copyright Infringement. This claim requires a violation of "the exclusive rights" of the copyright "owner" or "author." 17 U.S.C. § 501(a). The "exclusive rights" are the rights of reproduction, adaptation, publication, distribution, performance, display, and performance of a sound recording. *See id.* §§ 106-22. As discussed above, not only is SSI not the copyright owner or author,

---

[12] That SSI receives royalty payments does not mean the 1983 Agreement is a license and not an assignment. Provision for royalty payments is fully consistent with assignments. *See* 3 NIMMER ON COPYRIGHT § 10.03 ("payment of royalties is conduct that is as consistent with a license as it is with an assignment"); *Yount*, 103 F.3d at 835 (assignment of copyright in exchange for royalties); *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1016 (9th Cir. 2007) (patent owner relinquished all rights in exchange for 5% perpetual royalty payment).

but the attempted statutory termination through the authors' heirs was *not* an act of reproduction, adaptation, publication, distribution, performance, display or performance. As a matter of law, there is no infringement.

Fourth Counterclaim—Breach of Contract. This breach of contract claim fails because SSI cannot point to any contract provision that Disney breached. Read most favorably for SSI, the 1983 Agreement provides that *Christopher Robin Milne* would not exercise his *then*-existing termination rights in 1983. (Ex. 10 at 6:14-17.) There was no promise by *Disney* concerning termination, let alone one involving future termination rights by Clare Milne or Minette Hunt. Nor could there have been—since that right was not created until 15 years later with the passage of the 1998 Sonny Bono Copyright Term Extension Act.

Fifth Counterclaim—Breach of the Implied Covenant. Because the 1983 Agreement does not forbid Disney from seeking or assisting with a termination attempt by Clare Milne or Minette Hunt, SSI cannot invoke the implied covenant of good faith and fair dealing to impose an obligation on Disney not to so act. Claims for breach of the implied covenant cannot be used to create obligations that do not exist in the agreement itself. *See Guz v. Bechtel Nat'l, Inc.*, 24 Cal. 4th 317, 349-50 (2000). The covenant "cannot impose substantive duties or limits on the contracting parties beyond those incorporated in the specific terms of their agreement." *Id.*; *accord Racine & Laramie v. Dep't of Parks & Rec.*, 11 Cal. App. 4th 1026, 1032 (1992) (implied covenant "is limited to assuring compliance with the express terms of the contract, and cannot be extended to create obligations not contemplated in the contract").

Twelfth Counterclaim—Business and Professions Code Section 17200. When SSI sought leave to amend its counterclaims, Disney argued that adding a Section 17200 claim was futile. For the purpose of considering leave to amend, the Court accepted two ways SSI's claim might proceed. (Ex. 10 at 6-7.) The first was SSI's "unlawfulness" theory, which asserts that Disney violated 17 U.S.C. §

304(c)(6)(D) when it entered into reversion agreements with Milne and Hunt. This statutory provision furthers the Congressional interest in allowing heirs to recapture copyright interests and make informed decisions about their subsequent use. Section 304(c)(6)(D), however, cannot be invoked to trigger a Section 17200 violation, because it concerns the *enforceability of contract* and not the *lawfulness of conduct*. Specifically, Section 304(c)(6)(D) declares invalid certain premature agreements concerning recaptured copyrights: "A further grant, or agreement to make a further grant, of any right covered by a terminated grant is *valid* only if it is made after the effective date of the termination" (emphasis added).[13]

Conduct that is "neither required nor proscribed by law does not constitute an 'unlawful' business activity under the unfair competition law." 61 Cal. Jur. 3d UNFAIR COMPETITION § 3 (2008); *see Smith v. State Farm Mut. Auto. Ins. Co.*, 93 Cal. App. 4th 700, 706-07 (2001). Section 304(c)(6)(D) of the Copyright Act does not "require" or "proscribe" any action. Instead, it merely declares that certain agreements are invalid if they are executed too early. Disney is no more guilty of "unlawful" behavior under Section 17200 than a party who enters into a contract without sufficient consideration, fails to properly memorialize a promise in writing, or executes a testamentary grant in violation of the rule against perpetuities.

SSI's second Section 17200 theory was "unfairness"—it was "unfair" for Disney to induce a breach of contract. (Ex. 10 at 6-7.) This theory fails because there was no breach of contract. The 1983 Agreement was signed by Christopher Milne; Clare Milne and Minette Hunt were *not* parties. Thus, even had Disney induced Clare Milne and Minette Hunt to seek to recapture their rights as heirs

---

[13] This distinction was explained in *Bourne Co. v. MPL Commc'ns, Inc.*, 675 F. Supp. 859 (S.D.N.Y. 1987). This Copyright Act section "provides merely that an agreement between the terminating party and the terminated grantee prior to the effective date of termination is the only one that is *valid* and *enforceable* against the former." *Id.* at 865 (emphases added). This section does not create a "right of first refusal," does not "give the terminated grantee a preferred competitive position," and it "neither *compels* the terminating party to negotiate with the terminated grantee, nor *forbids* him from negotiating with anyone else." *Id.* (emphases added).

(which is not the case), neither heir would have breached any contract. Consequently, Disney could not have induced a breach and could not have acted "unfairly" under Section 17200.

Finally, SSI's Twelfth Counterclaim asks for termination of the 1983 Agreement. Because this is a remedy, and not a claim for relief, it fails with the claim on which it depends. The same is true for SSI's request for injunctive relief in the Tenth Counterclaim, which also is based on its claim for unfair competition as well as on its claims for fraud and breach of contract. *See McDowell v. Watson*, 59 Cal. App. 4th 1155, 1159 (1997).

VII. CONCLUSION.

Disney respectfully urges the Court to bring a swift and decisive end to this reincarnation of SSI's dismissed case. Basic principles of preclusion block SSI from relitigating claims the state court dismissed with prejudice. Basic principles of judicial estoppel block SSI from a complete reversal of factual contentions it advanced for over a decade. SSI's "orchestration" allegations state no claim for relief. Summary judgment is warranted.

Dated: April 21, 2008

Respectfully submitted,

O'MELVENY & MYERS LLP

By: ______________________
Daniel M. Petrocelli
Attorneys for Counterclaim-Defendants
Disney Enterprises, Inc., The Walt
Disney Company, and Walt Disney
Productions

EXHIBIT B

Joseph W. Cotchett (#36324; jcotchett@cpmlegal.com)
Nancy L. Fineman (#124870; nfineman@cpmlegal.com)
Philip L. Gregory (#95217; pgregory@cpmlegal.com)
Michelle T. Duval (#239497; mduval@cpmlegal.com)
COTCHETT, PITRE & McCARTHY
840 Malcolm Road, Suite 200
Burlingame, CA 94010
Telephone: (650) 697-6000
Facsimile: (650) 697-0577

Harvey Saferstein (#49750; hsaferstein@mintz.com)
MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO, P.C.
Century Plaza Towers
2029 Century Park East, Suite 1370
Los Angeles, CA 90067
Telephone: (310) 586-3200
Facsimile: (310) 586-3202

Andrew D. Skale (#211096; askale@mintz.com)
Daniel T. Pascucci (#166780; dpascucci@mintz.com)
Ben L. Wagner (#243594; bwagner@mintz.com)
MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO, P.C.
5355 Mira Sorrento Place, Suite 600
San Diego, CA 92121
Telephone: (858) 320-3000
Facsimile: (858) 320-3001

Attorneys for Defendant and Counter-Claimant STEPHEN SLESINGER, INC.

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

CLARE MILNE, an individual, by and through MICHAEL JOSEPH COYNE, her Receiver, and DISNEY ENTERPRISES, INC. **Plaintiffs,** **v.** **STEPHEN SLESINGER, INC.** **Defendant.** --- **STEPHEN SLESINGER, INC.,** **Counter-Claimant,** **v.** **DISNEY ENTERPRISES, INC.; THE WALT DISNEY COMPANY; WALT DISNEY PRODUCTIONS.** **Counter-Defendants.**	Case No. CV-02-08508 FMC (PLAx) Honorable Florence-Marie Cooper **COUNTER-CLAIMANT STEPHEN SLESINGER, INC.'S <u>OPPOSITION</u> TO:** **DISNEY'S MOTION FOR SUMMARY JUDGMENT, OR ALTERNATIVELY, SUMMARY ADJUDICATION** Hearing Date: June 9, 2008 Hearing Time: 10:00 a.m. Place: Courtroom 750 Honorable Florence-Marie Cooper

TABLE OF CONTENTS

LAW OFFICES
COTCHETT, PITRE & MCCARTHY

TABLE OF AUTHORITIES

Page

California Cases

Federal Cases

LAW OFFICES
COTCHETT, PITRE & McCARTHY

I. INTRODUCTION

As Disney moves for summary judgment, it emphasizes that "the California courts minced no words - the state court case was terminated for all the reasons set forth in the Court of Appeal decision." Yet, as much as Disney seeks to apply *collateral estoppel* and *res judicata* principles in asking this Court to dismiss the entire Federal case, it fails to establish that the state court dismissal was **on the merits** as required by the law. Even if certain damages are barred - the claims in this Federal case were never litigated on the merits in any forum. Nothing in the Court of Appeal's decision or the state trial court's dismissal order makes any determination of the merits of the controversy and no evidence of the merits was presented.

Rather than bring a motion to dismiss under F.R.Civ.P. 12(b)(6), as Disney represented to this Court that it would do, Disney brought a motion for summary judgment seeking to have all of the claims alleged in Slesinger's case pending in this Court dismissed based upon *res judicata*, collateral estoppel and judicial estoppel. One has only to read its statement to the Court and the meet and confer letters as referenced in Section II below to understand why it brought a summary judgment motion instead of the promised motion to dismiss.

Estoppels are disfavored, *People v. Frank*, 28 Cal. 507, 517 (1865), and it is Disney's burden to show with *certainty* rather than conjecture, that all elements have been met. *Oakland v. Oakland Water Front Co.*, 118 Cal. 160, 221, 50 P. 277 (1897); *see People v. Garcia*, 39 Cal.4th 1070, 1092, 48 Cal.Rptr.3d 75 (2006). Disney ignores the doctrine's legal requirements and its motion must fail.

Disney premises its current motion for summary judgment/adjudication of the Fourth through Seventh Claims on its argument that the California Court of Appeal's decision in *Slesinger v. Walt Disney Co.*, 155 Cal.App.4th 736, 66 Cal.Rptr.3rd 268 (2007) bars these claims under the doctrines of collateral estoppel and *res judicata*. Disney ignores the key language in that decision which demonstrates that the dismissal of Slesinger's state court case is **not a decision on the merits**, an essential element for collateral estoppel and *res judicata* to apply. *Mycogen Corp. v. Monsanto Co.*, 28 Cal.4th 888, 123 Cal. Rptr. 2d 432 (2002); *Johnson v. City of Loma Linda*, 24 Cal.4th 61, 71, 99 Cal.Rptr.2d 316 (2000). The California Court of Appeal explicitly stated that one of the considerations in determining whether a trial court should use inherent authority to dismiss a complaint is the preference to determine claims on the merits rather than by sanctions:

> The decision whether to exercise the inherent power to dismiss requires consideration of all relevant circumstances, including the nature of the misconduct (which must be deliberate and egregious, but may or may not violate a prior court order), **the strong preference for adjudicating claims on the merits**, the integrity of the court as an institution of justice, the effect of the misconduct on a fair resolution of the case, and the availability of other sanctions to cure the harm.

Slesinger, 155 Cal.App.4th at 764 (emphasis added, footnote omitted). Since this foundational element has not been met, the Court cannot grant Disney's motion, even if Disney met the procedural requirements to bring it. Disney's attempt to divert the Court away from this requirement by focusing on Slesinger's alleged conduct, which Slesinger contends did not occur, confirms that the state court case was not decided on the merits because that conduct is not relevant to the merits of the issues in *this* case.[1/]

---

1 The opinion does succinctly discuss Slesinger's role in transforming and developing Winnie-the-Pooh from a series of black and white drawings to the colorized bear and his friends, all well-known and loved throughout the world: "British author A.A. Milne created the Winnie the Pooh series of children's stories. In 1930, Stephen Slesinger acquired from Milne the rights to commercially exploit the works in the United States and Canada. Stephen Slesinger formed a corporation, SSI, to which he assigned the Pooh rights. In 1961, SSI licensed certain rights of commercial exploitation to Disney." *Id.* at 740-741.

In addition, Slesinger's counterclaim alleges *new* and *different* breaches by Disney, and damages suffered by Slesinger. Slesinger specifically alleges that it is not asserting any claims barred by the state court action. Counterclaim ¶ 145. Due to the *continuing* nature of the relationship between Disney and Slesinger, the state court judgment cannot be used by Disney as a *permanent bar* to all of Slesinger's right to seek redress for new breaches or wrongful conduct, as Disney requests. *Nakash v. Superior Court*, 196 Cal.App.3d 59, 69, 241 Cal.Rptr. 578 (1988). For example, many claims were not alleged in state court as they were **Federal** claims.

The Court should also deny Disney's motion on the copyright, trademark and trade dress claims because there are many questions of material fact, including Disney's infringement that Disney chooses to ignore.

II. A MOTION FOR SUMMARY JUDGMENT IS PREMATURE ON THE BASIS OF THIS RECORD

In two hearings concerning the scope of the state court judgment, Disney told the Court it was bringing a **motion to dismiss**. Slesinger Exhibit ("Ex.") 54 at 4:23 - 5:3; 8:9-15 (emphasis added).[2] At the March 3, 2008 Status Conference, the Court asked how the judgment in the state cases affected the federal case, and after discussion with counsel, the Court issued an order setting a "briefing schedule on a **Motion to Dismiss**." Ex. 54 (emphasis added). A Motion to Dismiss under federal procedure is a Rule 12(b)(6) motion and entirely different from a Rule 56 motion.

Instead of filing a Motion to Dismiss, Disney filed this motion for summary judgment (without first filing an answer). It contains 85 separate exhibits (so many exhibits that the documents had to be manually rather than electronically filed), 74 alleged uncontroverted facts and 16 alleged conclusions of law.

2 Slesinger exhibits are referred to as "Ex."; Disney exhibits as "Disney Ex."

Neither the discussions with the Court, the short conversation between counsel after the Status Conference or the two letters exchanged by counsel, (Disney Exs. 86 and 87), satisfy the thorough discussion contemplated by Local Rule 7-3 to meet and resolve issues. Indeed, the issues addressed in Sections IV-VI of Disney's motion have nothing to do with the state case which was to be the predicate of Disney's motion as articulated in the "meet-and-confer" letter, which only states: "To be clear, SSI has known for years that Disney contends the counterclaims are subject to dismissal by reason of the state court proceedings and judgment." Disney Ex. 87.

Slesinger's counsel asked for three weeks to prepare an opposition to a <u>motion to dismiss</u>. Had Slesinger been aware of the actual motion Disney was going to file, it would have requested more time and discovery. Despite its diligent and best efforts, responding to this motion has been a daunting task. There may be further evidence to discover from Disney or third parties; yet Slesinger has been foreclosed from obtaining the discovery it needs, including information about positions Disney takes on the Federal claims. Slesinger should have a full opportunity to prepare an opposition and take discovery before the Court rules on Disney's motion for summary judgment/adjudication.

Disney's attempt at a summary judgment motion now rather than a motion to dismiss should not be allowed by this Court for failure to meet and confer in good faith. *See Texas Partners v. Conrock Co.*, 685 F.2d 1116, 1119 (9th Cir. 1982) ("Appellants should be afforded reasonable access to potentially favorable information prior to the granting of summary judgment.").[3]

---

[3] Slesinger's counterclaim does not and is not required to provide any more than a short and plain statement of jurisdiction, the claim showing it is entitled to relief and a demand for relief. F.R.Civ.P. Rule 8. It is not required to allege evidentiary facts, but only provide notice. *Fanucchi & Limi Farms v. United Agri Products*, 414 F.3d 1075, 1082 (9th Cir. 2005). Since Disney is not aware of all the facts claimed by Slesinger, it cannot prove that Slesinger cannot prevail on its theory of the case. *Amgen, Inc. v. Genetics Inst.*, 98 F.3d 1328, 1329 (Fed.Cir. 1996). Disney's motion then is simply a mechanism for Disney to obtain

LAW OFFICES
COTCHETT, PITRE & MCCARTHY

III. THE EFFECT OF THE STATE CASE DISMISSAL

The California Court of Appeal found conduct by Slesinger or its agents that allowed the Court to use its inherent authority to dismiss the case. It did not dismiss the case on the merits. As set forth in detail later, the basic answer is that the judgment of the state court does not have preclusive effect on this lawsuit because nothing in that judgment adjudicated the merits of any issues or claims. The judgment does not identify issues that were actually litigated and necessarily decided so that this Court could make a decision of what was precluded, if in fact there was a judgment on the merits. Additionally, this counterclaim alleges new and different claims and damages than the state case.

IV. STANDARD OF REVIEW

Courts must act cautiously in granting summary judgments/adjudications. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255, 106 S.Ct. 2505 (1986). As the moving party, Disney is required to "show that there is no genuine issue as to **any** material fact" and that it is "entitled to judgment as a matter of law." F.R.Civ.P. 56(c) (emphasis added); *United States v. Ibrahim*, 2008 U.S.App. Lexis 8360, *1 (9th Cir. Apr. 14, 2008). Disney has the burden of production and persuasion and all reasonable inferences are drawn in Slesinger's favor. *Hart v. Parks*, 450 F.3d 1059, 1065 (9th Cir. 2006) (citing *Anderson*, 477 U.S. at 248); *see also Eastman Kodak v. Image Technical Services, Inc.*, 504 U.S. 451, 456, 112 S.Ct. 2072 (1992).

V. ELEMENTS OF *RES JUDICATA* AND COLLATERAL ESTOPPEL

Disney has the burden of establishing *res judicata* (claim preclusion) and collateral estoppel (issue preclusion). *Vella v. Hudgins*, 20 Cal.3d 251, 257, 142 Cal.Rptr. 414 (1977) (*res judicata*); *Kemp Bros. Construction Co. v. Titan Electric Corp.*, 146 Cal.App.4th 1474, 1482, 53 Cal.Rptr.3d 673 (2007) ("The party

---

discovery about Slesinger's claims without providing Slesinger a reciprocal right.

asserting collateral estoppel bears a 'heavy' burden. . . ."). Slesinger is entitled to file and prosecute a claim <u>unless and until</u> Disney affirmatively shows it to be barred. *Ferraro v. Camarlinghi*, 161 Cal.App.4th 509, 530, n. 24, 2008 Cal.App. Lexis 423 (2008). To defeat Slesinger's claim on summary judgment, Disney must show that the claims and issues would be precluded even on Slesinger's version of the case, a burden it cannot meet. *Amgen,* 98 F.3d at 1329.

The rules of *res judicata* and collateral estoppel are exacting and <u>fact</u> specific. *Res judicata* precludes the relitigation of a cause of action only if (1) the decision in the prior proceeding is final and on the merits; (2) the present action is on the same cause of action as the prior proceeding; and (3) the parties in the present action or parties in privity with them were parties to the prior proceeding. *Busick v. Workmen's Comp. Appeals Bd.*, 7 Cal.3d 967, 974, 104 Cal.Rptr. 42 (1972). Elements one and two are <u>not</u> met here.

Collateral estoppel has "five threshold requirements: 1) the issue to be precluded must be identical to that decided in the prior proceeding; 2) the issue must have been actually litigated at that time; 3) the issue must have been necessarily decided; 4) the decision in the prior proceeding must be final and on the merits; and 5) the party against whom preclusion is sought must be in privity with the party to the former proceeding." *Garcia*, 39 Cal.4th at 1077. Thus *res judicata* and collateral estoppel require three common elements: "(1) A claim or issue raised in the present action is identical to a claim or issue *litigated* in a prior proceeding; (2) the prior proceeding resulted in a final judgment *on the merits*; and (3) the party against whom the doctrine is being asserted was a party or in privity with a party to the prior proceeding." *Zevnik v. Superior Court*, 159 Cal.App.4th 76, 82-83, 70 Cal.Rptr.3 817 (2008). As the Ninth Circuit has explained:

> A federal court is required under 28 U.S.C. § 1738 to look to the preclusion law of the state court that rendered the earlier judgment or judgments to determine whether subsequent federal litigation is precluded. . . .

> An issue or claim is not precluded in federal court merely because it already has been, or could have been, decided by a California state court. Issue and claim preclusion (collateral estoppel and *res judicata*) have specific requirements that must be satisfied before preclusion can be found. For example, under California state law a litigant must have had an appropriate opportunity to litigate an issue in the earlier suit before he or she will be issue-precluded (collaterally estopped) from relitigating that issue in a later suit. Further, a litigant will be claim-precluded (barred by *res judicata*) from bringing a previously unbrought claim only if that claim is part of the same "primary right" as a claim decided in earlier litigation.

Kougasian v. TMSL, Inc., 359 F.3d 1136, 1153 (9th Cir. 2004) (citations omitted).[4/]

Kougasian involved multiple lawsuits arising from a *single* skiing accident death, a single injury. In contrast, this counterclaim arises from continuing acts of Disney causing different harm to Slesinger than the state action. There have been new breaches giving rise to new causes of action. These factual issues cannot be decided summarily and Disney has not met its burden of demonstrating that Slesinger cannot prevail under any theory–especially since there has been no discovery on this counterclaim. Therefore, the Court should deny Disney's motion for summary judgment/adjudication.

VI. LEGAL ANALYSIS

A. *RES JUDICATA* AND COLLATERAL ESTOPPEL DO NOT BAR SLESINGER'S FEDERAL CLAIMS

1. The Dismissal of The State Court Action Was *Not* a Determination on the Merits

The essential requirement of a dismissal on the merits is not met in this case. A judgment is considered to be on the merits "if it is rendered upon consideration

---

4 This Court does not have to give full faith and credit to the state judgment because it is penal in nature. *In Marriage of Gray*, 204 Cal.App.3d 1239, 1250, 1253-54, 251 Cal.Rptr. 846 (1988); *see Kennedy v. Mendoza-Martinez*, 372 U.S. 144, 168-169, 83 S. Ct. 554 (1963) (defining penal).

of a legal claim, as distinguished from consideration of an objection to subject-matter jurisdiction, personal jurisdiction, service of process, venue, or any other ground that does not go to the legal or factual sufficiency of the claim to relief." 18 *Moore's Federal Practice 3d ed.* §131.30[3][a] (2004); *see* 7 Witkin, *California Procedure*, Judgment §§ 313-326, pp. 864-879 (4th ed. 1997) (providing examples of judgments on the merits and not on the merits).[5]

Disney tries to analogize this case to *Kahn v. Kahn*, 68 Cal.App.3d 372, 137 Cal.Rptr. 332 (1977), a discovery case, to argue that the judgment in the state case bars Slesinger's Fourth, Fifth, Sixth and Seventh Claims for Relief in this Court. This case is not analogous to *Kahn*. In *Kahn*, the plaintiff failed to comply with discovery orders in a dispute over property rights between two brothers. He provided no discovery to support his claim, despite court orders to do so. The trial court issued an order to show cause why sanctions should not be imposed against him for failure to comply with the discovery orders. Plaintiff failed to appear at the hearing and the trial court dismissed the action "on grounds that 'plaintiff has wilfully failed and refused to comply with the orders of this Court **to give discovery**.'" *Id.* at 377 (emphasis added). Rather than seek relief from that order, the plaintiff filed an identical second action and the defendant demurred on *res judicata* grounds. As stated by the California Court of Appeal: "We are confronted on this appeal with a crucial question that seems to be of first impression in this jurisdiction: Is the dismissal of an action invoked as a sanction under Code of Civil Procedure section 2034, subdivision (b)(2), for failure to comply with the discovery rules a dismissal on the merits barring another action involving the same parties and subject matter?" *Id.* at 376; *see also id.* at 378.

---

5 Judgments on the merits include: judgments after a trial of the issues of fact, by jury or judgment; motion for summary judgment; and judgment by default or consent. Judgments not on the merits include: dismissal for lack of jurisdiction, lack of prosecution, failure to join an indispensable party, and dismissal because of laches. *Id.* at §§ 313-322; 2007 Supp. at pp. 273-278.

Starting with its "uncharted course," the California Court of Appeal recognized that the "use of the word 'dismissed' is not determinative." *Id.* at 380 Dismissal can be both on the merits and not on the merits. *Id.*; *see also* Cal. Code Civ. Pro. 1911. "The question is to be determined, not on the basis of any single word or phrase used, but upon a consideration of the entire 'judgment' together with the pleadings and the findings, in the light of the provisions, the scope and the apparent purpose of the [applicable] court law." *Kahn*, 68 Cal.App.3d at 380, citing *Moch v. Superior Court*, 39 Cal.App. 471, 475-476, 179 P. 440 (1919). The court recognized that the California civil discovery statutes allow judgment to be entered against a defendant for *failing* or *refusing* to comply with discovery orders. *Id.* at 381-82. "The *ratio decidendi* behind such cases appears to be on the theory that a persistent refusal to comply with an order for the **production** of evidence is tantamount to an **admission that the disobedient party really has no meritorious claim or defense** to the action." *Id.* at 382 (emphasis added). Accordingly, the court held that dismissal for failure to comply with discovery orders barred a subsequent action. The court found that federal and other state courts decisional law holding that dismissal for sanctions for failure to engage in discovery supported its decision. *Id.* at 383-384 (citing cases). Subsequent cases cite *Kahn's* conclusion that the refusal to comply with a discovery order **admits a lack of merit** in the claim. *See e.g. Bernstein v. Allstate Ins. Co.*, 119 Cal.App.3d 449, 451, 173 Cal.Rptr. 841 (1981); *Koch v. Rodlin Enterprises*, 223 Cal.App.3d 1591, 1597, 273 Cal.Rptr. 438 (1990). In *Kahn*, and other cases finding a determination on the merits, unlike Slesinger in this case, the party **had an opportunity** to present the **merits** of its case, but either did not (such as in *Kahn* who had the opportunity to respond to discovery about the merits of his case or a defendant who has an opportunity to answer a complaint, but defaults) or presented its case and lost (*e.g.*, trial, demurrer on a legal issue, motion for summary judgment).

In this case, Slesinger had no opportunity to present the merits of its case in the motion for terminating sanctions, which makes the dismissal of the state case more analogous to those cases holding that the dismissal was not on the merits because the substance of the claim was not tried and determined. *Johnson v. City of Loma Linda*, 24 Cal.4th 61, 99 Cal.Rptr.2d 316 (2000) is instructive. In that case, a terminated employee delayed in having judicial review of an adverse administrative decision on his discrimination claim thus barring review under the doctrine of laches. Laches, however, did not bar his Title VII employment claim, even though an element of laches is that the delay has prejudiced the defendant. The California Supreme Court explained:

> A judgment is **on the merits** for purposes of res judicata "if the substance of the claim is **tried and determined** . . . ." (7 Witkin, *Cal. Procedure* (4th ed. 1997) Judgment, § 313, p. 864.) The doctrine of laches bars a cause of action when the plaintiff unreasonably delays in asserting or diligently pursuing the cause and the plaintiff has acquiesced in the act about which the plaintiff complains, or the delay has prejudiced defendant. (*Conti, supra*, [*v. Board of Civil Service Commissioners*, (1969)] 1 Cal.3d [337] at p. 359 [82 Cal.Rptr. 337]; *San Bernardino Valley Audubon Society v. City of Moreno Valley* (1996) 44 Cal.App.4th 593, 605 [51 Cal. Rptr.2d 897].) **The defense of laches has nothing to do with the merits** of the cause against which it is asserted. As we said in *Conti, supra*, at page 361: "The telling consideration must be that laches constitutes an affirmative defense *which does not reach the merits of the cause* . . . ." (Fn. omitted, italics added in original; bracketed and bold material added).

In *Lunsford v. Kosanke*, 140 Cal.App.2d 623, 628, 295 P.2d 432 (1956), plaintiff brought a contract action to which the defendant demurred. The trial court dismissed the complaint on demurrer. The plaintiff brought a second action against the same party on the identical issues. The Court of Appeal held that *res* *judicata* did not bar the second suit because there was not a final judgment on the merits: "the trial judge held in the first case that the complaint was so defective that no evidence could be received under it. A judgment not rendered on the merits does not operate as a bar."

The California Supreme Court explains that the reason for the rule is that **without evidence of the merits being introduced**, there is nothing before the court upon which to base any findings:

> Generally, judgments merely of dismissal, whether voluntary or involuntary, are not on the merits and do not operate as a bar or estoppel in subsequent proceedings involving the same matters, **unless it appears that the judgment necessarily involves those matters.**
>
> When a case is dismissed without evidence having been offered it is error to render judgment on the merits. **There is nothing before the court on which to base any findings determinative of the issues. The <u>absence of proof on either side</u> could not involve a judicial determination of the <u>merits of the controversy</u>. There must have been a right adjudicated or released in the first suit** to constitute the judgment a bar or an estoppel.

Campanella v. Campanella, 204 Cal. 515, 520-521, 269 P. 433 (1928) (emphasis added, citations and internal omitted; *see Rice v. Crow,* 81 Cal.App.4th 725, 736. 97 Cal.Rptr.2d 110 (2000).

In this case, there was <u>no</u> finding, nor could there be, that Slesinger's claims lacked merit. The judgment in the state case, and the opinions supporting the judgment, do not address, much less resolve, any of the substantive issues identified in Disney's motion. There cannot be a presumption, as in *Kahn*, that Slesinger has no evidence; in fact it has substantial evidence of Disney's wrongdoing.[6] Unlike *Kahn*, the judgment was not based on Slesinger's failure to introduce evidence, but instead, on collateral matters. As in *Campanella*, neither Slesinger nor Disney presented any evidence regarding the merits of the case at the hearing on Disney's motion for terminating sanctions; accordingly there is nothing from the judgment which this Court could use to determine what issues were decided on the merits. The California Court of Appeal recognized that decisions, such as the one it was affirming based on the inherent powers of the court,[7] are <u>not</u> a determination that the claims do not have merit. *See Slesinger*, 155 Cal.App.4th at 746 (decision to dismiss under inherent power of the court must consider "the strong preference for adjudicating claims on the merits.").

Disney argues it was prejudiced by Slesinger's behavior; that argument is irrelevant in applying *res judicata* and collateral estoppel. Such an argument has been rejected. *See e.g. Johnson*, 24 Cal.4th at 61 (judgment based on laches because of plaintiff's delay which prejudiced defendant was not on the merits for *res judicata* purposes). Accordingly, Disney has not met the foundational requirement of *res judicata* and colleral estopel–a decision on the merits.

2. <u>The State Case Does Not Meet the Identicality Issues, Actually Litigated or Necessarily Decided Requirements of Issue Preclusion</u>

Even if the Court were to decide that there was a determination on the merits in the state case, Disney still must meet its burden of demonstrating that the identical issues were litigated and necessarily decided in the state case as are asserted in Slesinger's counterclaim. These doctrines are not mechanically applied, but must be applied to insure that they are not applied inequitably to stop

---

6 Slesinger produced discovery, appeared for depositions, and Referees conducted an audit of Disney that confirmed Disney had under-reported royalties owed to Slesinger. Ex. 53. The state court (through a different judge) issued evidentiary sanctions against Disney. *Slesinger*, 155 Cal.App.4th at 776, n. 27, Exs. 53, 35.

7 Justice Willhite pointed out at oral argument that the trial court did not issue the order as a discovery sanction. Ex. 44 at 33:1-5.

LAW OFFICES COTCHETT, PITRE & MCCARTHY

meritorious actions. *See Ferraro,* 161 Cal.App.4th at 531 *(Res judicata* is not a "mechanism for the blind forfeiture of meritorious causes of action."); *Vandenberg v. Superior Court*, 21 Cal.4th 815, 829, 88 Cal.Rptr.2d 366 (1999) ("even where the minimal prerequisites for invocation of the doctrine are present, collateral estoppel is not an inflexible, universally applicable principle; policy considerations may limit its use where the . . . underpinnings of the doctrine are outweighed by other factors. (citations and quotations omitted)). Here, for example, in the state case, Disney destroyed documents, resulting in sanctions against it, a fact the Court may consider.

Unless Disney can demonstrate that the issue was actually litigated and necessarily decided, Slesinger's claims are not barred. Disney's burden is high here because there wase **no finding on the merits by the state court of any issue** in Disney's favor, and there has been no discovery in this case. **Disney itself admits that the claims are not identical** because it only claims (incorrectly) that there is "near-perfect overlap." Disney's Motion at 1:1. "Near" overlap does not meet the requirements of *res judicata* and collateral estoppel, which require "identical" overlap. Disney has failed to meet its burden: "The party asserting collateral estoppel must prove the issue was raised, actually submitted for determination and determined and that contrary evidence on the issue was not restricted." *Schaefer/Karpf Productions v. CNA Ins. Companies*, 64 Cal.App.4th 1306, 1314, 76 Cal.Rptr.2d 42 (1998), citing *Barker v. Hull*, 191 Cal.App.3d 221, 226, 236 Cal.Rptr. 285 (1987) (footnote omitted). The court must "carefully scrutinize" the pleadings and proof. "This scrutiny includes looking behind the findings at the evidence to determine what was actually decided." *Id.*

"Conjecture" cannot be the basis for concluding that an issue was decided by a prior judgment. *Kemp Bros. Const.*, 146 Cal.App.4th at 1482.[8]

The fact that there has been a dismissal does not demonstrate the ground that has been actually litigated and decided. For example, in *People v. Garcia*, 39 Cal.4th 1070, 48 Cal.Rptr.3d 75 (2006), applying collateral estoppel, a county alleged in an administrative hearing that a woman had improperly received welfare benefits. The administrative law judge identified three potential causes of the alleged overpayments: "(1) inadvertent household error, (2) administrative error, and (3) intentional program violations." *Id.* at 1075. The administrative law judge concluded that the overpayments were the result of administrative errors or omissions. *Id.* Meanwhile, the county charged the woman criminally with fraudulently receiving welfare benefits and she was convicted. The woman appealed her conviction arguing that collateral estoppel barred her from being criminally prosecuted for welfare fraud because she was exonerated of that charge in the administrative proceedings. *Id.* at 1076. The California Supreme Court remanded the case to permit the Court of Appeal to determine if the administrative law judge made a finding of fact on the issue of fraud; only if there had been such a determination would the criminal prosecution be collaterally estopped. *Id.* at 1090-91. *See also Zevnik v. Superior Court*, 159 Cal.App.4th 76, 85, 70 Cal.Rptr.3d 817 (2008) ("In our view, a blanket rule according collateral estoppel effect to each alternative and unreviewed ground for a trial court decision in these circumstances for the purpose of precluding relitigation of issues in collateral litigation is unnecessary and would be unwise.").

---

8 Disney's citation to a draft counterclaim that was not filed, based upon Disney's objection is not admissible. *See* Disney's motion at 6:17-19. Only the filed counterclaim may be considered by the Court. *See Forsyth v. Humana*, 114 F.3d 1147, 1474 (9th Cir. 1997) (filed amended complaint supercedes prior complaint). The allegations which come from the draft counterclaim, which must be disregarded, are: ¶169(b) at 13:5-10, and ¶169 at 15:5-14 of Disney's motion.

Since the state judgment is not based on any determination of the merits of any of the issues within Slesinger's claims, the state case does not meet the identical issue requirement, actually litigated or necessarily decided requirements.

3. Slesinger Cannot Be Barred From Suing for Breaches Arising *After* the Filing of Slesinger's Last State Complaint

Under no circumstances can *res judicata* bar *new* claims accruing after March 27, 2003, the date the Supplemented Third Amended Complaint was filed. Disney Ex. 6. *Allied Fire Protection v. Diede Construction, Inc.*, 127 Cal.App.4th 150, 155, 25 Cal.Rptr.3d 195 (2005).

Slesinger and Disney have had a contractual relationship for over 45 years, more than 25 years under the current 1983 Agreement. The state court decision cannot be used to forever bar Slesinger's right to sue Disney for breaching that 1983 Agreement. *Res judicata* and collateral estoppel cannot be used to immunize a party in a continuing business liability for continuous or recurrent breaches of contract. *See Nakash,* 196 Cal.App.3d at 69; *Neil Norman, Ltd. v. William Kasper & Co.*, 149 Cal.App.3d 942, 947, 197 Cal.Rptr. 198 (1983); *Allied Fire*, 127 Cal.App.4th 150, 155.

Since the 1983 Agreement is ongoing, Slesinger continues to have the right to sue on successive claims based upon the 1983 Agreement. Cal. Code of Civ. Pro. § 1047; *Yates v. Kuhl*, 130 Cal.App.2d 536, 540, 279 P.2d 563 (1955). ("It [the second action] concerns successive causes of action arising out of the same general subject matter -- the right to the water. Successive causes of action based on the same contract or transaction are specifically recognized by section 1047 of the Code of Civil Procedure." (bracketed material added)). In *May v. Morganelli-Heumann & Assoc.*, 618 F.2d 1363 (9^{th} Cir. 1980), a plaintiff sued in state court for breach of contract and settled the case. Thereafter, he sued a third party in federal court. The district court found that the settlement of the state suit resolved all contract claims against the plaintiff, and on that basis, granted summary judgment. The Ninth Circuit reversed. The plaintiff still had rights to sue under the contract for further breaches. *Id.* at 1366-67 citing *Coughlin v. Blair*, 41 Cal.2d 587, 598-599, 262 P.2d 305 (1953). The same analysis applies here – Slesinger could only sue for breaches that had occurred at the time of the original state action; it is not foreclosed from suing for additional future breaches, within the appropriate statute of limitations. Otherwise, the ongoing contract is meaningless.

4. The Counterclaim Alleges Under-Reporting on Items for Which Disney Agrees It Must Pay a Royalty

Under no circumstances can the state court judgment prohibit Slesinger from suing for underpayment where Disney has agreed it has an obligation to pay royalties. In the state case, Slesinger alleged that Disney was under-reporting royalties owed to Slesinger. The court-appointed Referee, Justice David N. Eagleson, ruled that "an audit should proceed with respect to those items for which all parties agree plaintiff is entitled to a royalty." Ex. 20 at 2:23-24. Subsequently, the court-appointed Accounting Referees conducted an audit and found that Disney had under-reported royalties owed to Slesinger. Ex. 24. Disney also made numerous statements regarding the manner in which it accounts for certain items, such as guarantees. *See e.g.* Ex. 36 at 2-3. It also agreed that it owes Slesinger a royalty based on multiple revenue streams (Ex. 43), and a separate accounting for merchandise (Disney Ex. 2 at ¶10(c)).

Disney claims in this motion that statements such as "Disney claims entitled to royalties for all 'commercialization' of the Pooh Characters" (Disney Motion at 13:3-5 citing ¶ 71 of the counterclaim), are the same as allegations in the state case. Paragraph 71 of the counterclaim, however, cites to the language of the 1983 Agreement which requires Disney to pay Slesinger for royalties received from the "commercialization" of the works. Certainly, *res judicata* or collateral estoppel cannot rewrite the 1983 Agreement to relieve Disney of this explicit duty.

Disney makes the same argument regarding Slesinger's allegation that Disney committed material breaches of the 1983 Agreement by failing to pay the "gross" amount, another term used in the 1983 Agreement. *See* Counterclaim, Ex. 4, paragraph 10(a). *See also* Counterclaim ¶¶ 147, 154, 156. Disney does not dispute that these contract terms are valid; the only dispute is whether Disney is fulfilling its obligations – a continuing duty. The same reasoning applies to Disney's related arguments on Slesinger's claims for breach of the implied covenant, fraud or declaratory relief based on new damages or different wrongful acts–*res judicata* and collateral estoppel do not bar the claims. *See* Counterclaim, ¶¶ 163, 173-175, 179-180, *Nakash,* 196 Cal.App.3d at 69.

Disney's failure to pay Slesinger on items to which Disney agrees royalties must be paid cannot be barred by *res judicata* or collateral estoppel since the duty to pay the royalty has already been established and each year's failure to pay constitutes a new cause of action within the applicable statute of limitations. Cal. Code of Civil Procedure § 1047; *see Lawlor v. National Screen Service Corp.*, 349 U.S. 322, 328, 75 S.Ct. 865 (1955); *Eichman v. Fotomat Corp.*, 759 F.2d 1434 (9th Cir. 1985); *May,* 618 F.2d at 1363; *Coughlin,* 41 Cal.2d at 598-599; *Abbott v. 76 L. & W. Co.*, 161 Cal. 42, 48, 118 Cal.Rptr. 425 (1911); *Postal Instant Press v. Sealy*, 43 Cal.App.4th 1704, 1711 n.3, 51 Cal.Rptr.2d 365 (1996) *City of Santa Cruz v. Pac. Gas & Elec. Co.*, 82 Cal.App.4th 1167, 1178-79, 99 Cal.Rptr.2d 198 (2000); *Zingheim v. Marshall*, 249 Cal.App.2d 736, 744-45, 57 Cal.Rptr. 809 (1967). Because Disney had an obligation to make royalty payments for those years, Slesinger cannot be barred from suing for these underpayments, including those alleged at ¶¶ 77, 104-105, 147, 155 of the Counterclaim. Disney admits that *res judicata* and collateral estoppel do not bar these claims. Disney's Motion at 19, n. 4.

Similarly, regardless of whether the state court judgment was "on the merits" or the issues were actually litigated and necessarily decided, Slesinger also has the right to sue Disney for additional violations of the 1983 Agreement – such as Disney failing to report transactions to Slesinger within the six month reporting period, failing to retain records with sufficient detail, and failing to cooperate with audits and to provide complete information regarding accounting issues as alleged in the counter-claim. ¶¶ 153, 156. These are undisputed continuing obligations owed by Disney to Slesinger which accrue each time Disney fails to properly perform. Counterclaim, ¶¶ 77, 104-105, 147, 153-156.[9] Each time, Disney provides a new royalty statement, a new cause of action accrues. Cal. Code Civ. Pro. § 1047.

Since Disney's duty is established and different damages have been suffered, Slesinger's counterclaims in this suit are not barred.

5. <u>Different Claims Are Being Made in this Counterclaim than Were Made in the State Case</u>

Slesinger has made allegations about *new* wrongful acts by Disney that occurred *after* the filing of the last state court complaint. For example, Hong Kong Disneyland did not open until September 12, 2005; accordingly, allegations on Disney's reporting on revenue from the park is entirely new. See Counterclaim at ¶¶ 105, 156(b). The counterclaim refers to the fact that although in 2005, Hong Kong Disneyland opened and Disney heavily promoted Winnie the Pooh's 80th birthday celebration, Slesinger's royalty income for the period ending March 31, 2006, was 9% *lower* than the immediately prior period, even though Disney's income regarding the Pooh brand was *increasing*. Using length alone, the royalty statements are substantially different than those that were at issue in the state case. Ex. 43, Skale Decl. ¶ 45.

Additionally, the counterclaim alleges that Disney's current underpayments are caused by its modification of accounting practices following Disney's 2002

---

9 Slesinger's specific response to each of Disney's each alleged "near perfect" claims may be found in its Statement of Genuine Issues.

buy-out with Milne. Counterclaim at ¶¶ 92, 155 ("Slesinger is informed and believes that Disney is calculating and reporting royalties, in whole or in part, not in accordance with the 1983 Agreement but pursuant to the terms of the Milne Reversion Agreement."). This is a new allegation, not made in the state case. The claims relate to new technologies, *e.g.*, ring tones, virtual pets. Ex. 40. There are also new claims based on Disney's actions in 2004 regarding Disney stores. Exs. 43, 47; Disney Ex. 2. Further examples are provided in Slesinger's Statement of Genuine Issues. Disney has not met its burden that Slesinger cannot prevail under its theory of the case. *Amgen,* 98 F.3d at 1329.

6. <u>Different Primary Rights Are Involved</u>

Disney's claim that the federal counterclaim is barred by *res judicata* because Slesinger is suing under the same primary rights also must fail. Under the primary rights theory followed in California, courts look at the harm suffered, not the theory asserted. *Slater v. Blackwood*, 15 Cal.3d 791, 795, 126 Cal.Rptr. 225 (1975), citing *Peiser v. Mettler*, 50 Cal.2d 594, 328 P.2d 953 (1958). "As far as its content is concerned, the primary right is simply the plaintiff's right to be free from the particular injury suffered." *Mycogen,* 28 Cal.4th at 904, quoting *Crowley v. Katleman*, 8 Cal.4th 666, 681-692, 34 Cal.Rptr.2d (1994); *see Powell v. Alleghany Corp.*, 2001 U.S. Dist. Lexis 25411 (C.D. Cal. 2001). In *Mycogen*, there was a total breach of contract based upon a total repudiation of the contract rather than continuing breaches, as in this case. *Mycogen,* 28 Cal.4th at 905, n. 10.

This case is like *Nakash,* 196 Cal.App.3d at 69, where the court was clear: "*Res judicata* was never intended to be used as a vehicle for forever 'immunizing' any party in a continuing business relationship from liability for continuous or recurrent breaches of contract, conspiracy directed toward such breaches, or for continuous or recurrent tortious misconduct. All have been pleaded here, by real parties." As Slesinger suffered new or different damages as a result of Disney's continued underpayment, the primary violation doctrine does <u>not</u> bar Slesinger's claim. *See also Eichman v. Fotomat Corp.*, 759 F.2d 1234, 1238-39 (9th Cir. 1985); *Eichman v. Fotomat Corp.*, 147 Cal.App.3d 1170, 1175-77, 197 Cal.Rptr. 612 (1983) (Ninth Circuit finding different primary rights for subsequent conduct that was essentially identical to conduct in state case).

None of Disney's cases suggest that an ongoing breach of an obligation under a contract constitutes only one cause of action under the primary rights doctrine for purposes of claim preclusion. *Legg v. Mutual en. Health and Acc. Ass'n,* 184 Cal.App.2d 482 (1960) and *Smith v. City of Los Angeles,* 190 Cal.App.2d 112 (1961) were both cases decided under the issue preclusion arm of *res judicata*, not claim preclusion. *Olsen v. Breeze, Inc.*, 48 Cal.App.4th 608 (1996) simply cites, in passing, a case holding that a single breach of a contract gives rise to but one cause of action. *Mezey v. State of California*, 161 Cal.App.3d 1060 (1984) is a case on statute of limitations in which the plaintiff waited 14 years after her pension reinstatement was denied to bring a claim, a case not implicating an ongoing obligation under an existing contract, and certainly not implicating *res judicata.*

B. THE COURT SHOULD NOT GRANT SUMMARY JUDGMENT/ADJUDICATION ON THE COPYRIGHT, TRADEMARK AND TRADE DRESS CLAIMS

Disney's sole argument to Slesinger's claims for copyright, trademark and trade dress infringement rest on the claim that Slesinger does not own any rights which were not licensed to Disney.[10/] There are material facts in dispute regarding this assertion precluding summary judgment and/or adjudication.

---

[10] The doctrine of *res judicata* cannot apply to federal claims, such as copyright. *Freeman v. San Diego Ass'n of Realtors*, 322 F.3d 1133, 1143, fn. 8 (9th Cir. 2003), citing *Marrese v. American Academy of Orthopedic Surgeons*, 470 U.S. 373, 382, 105 S.Ct. 1327 (1985).

1. Slesinger Was Given Very Broad Rights From The PPT[11]

Slesinger was granted extremely broad rights to Pooh by A.A. Milne in the 1930's. The 1930 Agreement itself granted Slesinger, in part:

> To use in any and every manner except as hereinafter expressly forbidden [in the United States and Canada . . .] to and in the following works of the Author, to wit: "WHEN WE WERE VERY YOUNG", "WINNIE-THE-POOH", "NOW WE ARE SIX", and "THE HOUSE AT POOH CORNER", and of any literary works which may be hereafter written by the Author during the existence of this agreement,
>
> [a] the name of the Author,
>
> [b] the title of the said works,
>
> [c] and the characters therein,
>
> [d] the drawings and illustrations in the said several works
>
> [e] and the right to have made other and further drawings and illustrations portraying or reflecting actions of the said several characters described in the said works as such further drawings and illustrations may be suggested by the aforesaid original drawings and illustrations or by the text of the said works or any of them,
>
> [f] including the right to use the same in and for the purpose of advertising publicity and otherwise, except as is herein specifically stated to the contrary.

Ex. 1, 1930 Agreement, ¶1.

These rights were given, not in exchange for $1,000, but for a royalty stream and a $1,000 advance against those royalties. *Id.*, ¶5; *see Milne v.*

---

11 The Pooh Properties Trustees are abbreviated herein as ("PPT"). As noted in the 1983 Agreement, the PPT owned rights regarding Pooh that were granted to Slesinger. (1983 Agreement, ¶4(b).)

Slesinger, 430 F.3d 1036, 1039 (9th Cir. 2005), and this Court's Order Granting Summary Judgment, ("MSJ Order"), (Docket 360, at 4). Moreover, under a 1932 amendment to the 1930 Agreement, Slesinger received from Milne a broad grant that encompassed future technology regarding sounds, words or pictures:

> [T]he sole and exclusive right for and the use thereof within the above-mentioned territorial and geographical divisions and subdivisions and not elsewhere, to any and all use or uses of the books referred to in the above [1930 Agreement], and the various song books or works published or to be published or issued, based on or adapted from them or upon the literary works **to be written in the future** dealing with the characters contained in those books, including readings, recitations, songs, dramatizations and other performing rights over on or in connection with the radio, **or any adaptation or variation or extension thereof, or other mechanical sound, word and/or picture representation** (or any combination thereof) such as any broadcasting or representational device, wire, television, or other mechanical instrument or devices or **of any such future** similar or allied devices.

Ex. 4, 1932 Amendment (emphasis added).

As the Ninth Circuit and this Court have already recognized, the 1983 Agreement revoked the 1930 Agreement (as amended), "followed by the re-granting (on the same page) of the rights in the Pooh works to [Slesinger]." *Milne v. Slesinger*, 430 F.3d 1036, 1040 (9th Cir. 2005); *see also* MSJ Order, at 8:11-14. The 1983 Agreement "specifically stated: 'The Trustees hereby assign, grant, and set over unto [Slesinger] ***all*** of the rights in and to [the Pooh works] which were transferred to [Slesinger by virtue of the 1930 grant as amended].'" *Milne*, 430 F.3d at n.4 (quoting the 1983 Agreement; bracketed material added).

Importantly, neither Milne nor the PPT has ever maintained that Slesinger is incorrect in its assessment of the rights it owns. If any party had standing to complain, it would be them, and they have never exercised such right. Also, Disney's motion does not submit evidence where Milne or the PPT challenge such rights.

2. Slesinger's License To Disney Undeniably Is Narrower Than The Assignment of Rights to Slesinger

Slesinger licensed to Disney certain rights in 1961, but that license was revoked by the 1983 Agreement. The 1983 Agreement resulted in a license to Disney that was quite different in scope than the grant to Slesinger. Disney incorrectly contends that the 1983 Agreement is simply a regrant to Slesinger of the rights granted to it in 1930. It is not: (1) The 1983 Agreement expressly reserved rights not granted to Disney; (2) Disney's own pleadings admit this fact; (3) The rights-granting language in the 1983 Agreement demonstrates the constrictions on Slesinger's grant of rights to Disney; and (4) Without a specific grant, the law presumes that Disney's use is unauthorized infringement.

a. Disney Did Not Obtain All of Slesinger's Rights

Disney's argument that it was granted "all" of Slesinger's rights fails by the express language of the contract. The 1983 Agreement and its "side" letter (an integral part of the 1983 Agreement), demonstrate, or at least raise a material fact, that Slesinger reserved rights. The side letter to the 1983 Agreement specifically states that:

> (b) We agree that . . . [t]he words 'granted prior to June [14], 1961, . . .' appearing in the fourth line of subparagraph 6(a) are deleted.
>
> The change set forth in (b) above is made in recognition of the fact that the grant of rights in paragraph 7 and 8 of the Agreement relating to rights to make and distribute records respecting reproductions of dramatizations of the "work" (excluding Disney's version thereof), is ***nonexclusive***, even though payments under paragraph 10 are required

> in respect to phonograph records. ***You are aware of the fact*** that ***both before and after June 14, 1961***, we have entered into agreements wherein rights were granted to make and distribute records respecting reproductions of dramatizations of the "work", but not your version.

Ex. 7, April 1, 1983 letter, at 1 (emphasis added).

First, this side letter specifically recognizes that some of the rights granted to Disney are non-exclusive, *i.e.*, Slesinger retained a non-exclusive right.

Second, the letter demonstrates that Slesinger continued to have the right to grant rights to use Pooh to third parties.

Third, the 1983 Agreement, ¶6(a), had originally stated Slesinger had only granted rights to others "prior to June 14, 1961." 1983 Agreement. The side letter, however, removed the language "prior to June 14, 1961" because the parties recognized that Slesinger continued to license others Pooh rights after its deal with Disney. April 1, 1983 letter, at 1 (deleting "prior to June 14, 1961").

Fourth, the 1983 Agreement ***itself*** proves not all rights were granted to Disney. Paragraph 9(c) of the 1983 Agreement specifically notes that the license to Disney is "subject to such television rights to the work granted National Broadcasting Company prior to 14 June 1961." Paragraph 6(a) also notes that Slesinger has granted Pooh rights "to others." Accordingly, Slesinger did not grant Disney all of its rights.[12/]

b. A Reading of the 1983 Agreement Proves Disney's Grant Did Not Include All of Slesinger's Rights

In addition to the side letter, and Paragraphs 6(a) and 9(c) of the 1983 Agreement, other language of the 1983 Agreement proves that Slesinger did not license Disney all of its rights.

---

12 Disney confirms it did not obtain all of Slesinger's rights, stating that Slesinger's grant to Disney was "subject to certain licenses with third parties that are not at issue in this case." Motion at 24:4-5.

i. There is a Significant Difference Between Slesinger's Grant and Disney's Grant

If Disney had licensed everything owned by Slesinger, the 1983 Agreement would have been simple -- it would have assigned the rights to Slesinger and then said everything granted to Slesinger goes to Disney. The 1983 Agreement, however, does not say that. Instead here is a side-by-side comparison of the grant by the PPT to Slesinger compared to the Slesinger license to Disney:

GRANT TO SLESINGER	SLESINGER LICENSE TO DISNEY
4.(a) The Trustees hereby assign, grant, and set over unto Slesinger all of the rights in and to said work which were transferred to Stephen Slesinger (and his successor in interest) pursuant to the now revoked agreement dated 6 January 1930, as amended from time to time.	7. Slesinger hereby assigns, grants, and sets over unto Disney the sole and exclusive right in the United States and Canada to project, exhibit and broadcast visually and audibly any motion picture or motion pictures based in whole or in part upon the "work" hereinabove described, or any parts thereof, by means of the medium known as television or by any process now known or hereafter devised analogous thereto, as well as the right so to project, exhibit and broadcast by radio and television live shows based on said "work," subject to the terms of Paragraph 9.
	8. In addition, Slesinger hereby assigns, grants, and sets unto Disney all of the further rights in and to said "work" which are set forth in Paragraph [5] hereof, subject to the terms of Paragraphs 10 and 11.
	5. Except as is provided in Paragraph 6 below, Slesinger warrants and represents that, by virtue of the revocations in Paragraphs 1 and 2 hereof and the grant in Paragraph 4 hereof, Slesinger has been granted herein the sole and exclusive radio and television rights in the United States and Canada in and to said "work"; as well as various further rights, in and to said "work" which include the exclusive right in the United States and Canada to use, or license the use of, the characters and illustrations from the said "work" in, on or in connection with various articles of merchandise; that it has the right to enter into this Agreement; that it has the right to grant the rights herein granted Disney; and that it has engaged in no act to render the rights granted Disney herein invalid or impaired.

There is a reason the two grants are not congruent – they are different.

LAW OFFICES
COTCHETT, PITRE & MCCARTHY

As noted above, Slesinger obtained a very broad grant of rights, including without limitation, the right to create derivative drawings and illustrations (Ex. 4, 1932 Amendment), to use the rights via future media, *id.*, and the right to take out trademarks in Slesinger's own name, Ex. 1, 1930 Agreement, – just to name some of these detailed and specific rights (hereinafter "the Unlicensed Rights").

In contrast, the Ninth Circuit has already held that Disney's rights from Slesinger were quite narrow, noting that under the 1983 Agreement, "[i]n exchange for royalties, [Slesinger] turned around and granted Disney the radio, television, motion-picture, and merchandising rights to those works." *Milne*, 460 F.3d 1036. Thus, Disney was only granted a subset of Slesinger's rights.

ii. <u>The Language of Disney's Grant Proves It Does Not Include All of Slesinger's Rights</u>

The words of the 1983 Agreement confirm the limited nature of Disney's rights. In its motion, Disney quotes from only half of Paragraph 8 -- claiming that Slesinger "assigns, grants and sets over unto Disney all of the further rights." Disney then inserts without quotations: "SSI has in the Pooh Works." Disney's Motion at 24:14-16. This phrase "SSI has in the Pooh Works" is <u>not</u> in the 1983 Agreement. Paragraph 8 actually provides that "Slesinger hereby assigns, grants, and sets over unto Disney all of the further rights in and to said 'work' **which are <u>set forth</u> in Paragraph 5 hereof**…" (emphasis added.). The rights are more circumscribed than Disney claims. At the very least, it raises material issues of fact. As Peter Nolan of Disney admitted at his deposition, he was the principal drafter of this agreement. Ex. 51 at 24:25:3. Thus, any ambiguities are construed against Disney. *Ins. Co. of N. Am. v. NNR Aircargo Service, Inc.*, 201 F.3d 1111, 1114 (9th Cir. 2000).

In fact, the rights Disney obtained under Paragraph 5 (through Paragraph 8) are the narrow rights. Paragraph 5, which includes Slesinger's warranty, only discusses "radio and television rights in the United States and Canada in and to said 'work'; as well as various further rights in and to said 'work' which include the exclusive right in the United States and Canada to use, or license the use of, the characters and illustrations from said 'work' in, on or in connection with various articles of merchandise."

There is no place in the 1983 Agreement where Slesinger granted Disney the Unlicensed Rights. Disney's limited rights from Slesinger is also confirmed by Disney's buy-out of Milne in 2002. Those rights Disney bought from Milne are broader than the rights Slesinger licensed to Disney. Compare Ex. 6 (1983 Agreement) at ¶¶ 5, 7, 8 with Ex. 34 (Disney Buy-Out of Milne) at ¶ 2. Slesinger's counsel even warned Disney of copyright infringement prior to Slesinger filing the state case. Ex. 49 at 1.

Disney's acts also demonstrate it did not receive all rights. Ex. 30 at 2 (PPT telling Disney that "it was Disney's responsibility in 1962 to ensure that it obtained all the rights in the works which had been granted from Slesinger. If it failed to do so then that is and should remain Disney's problem.").] For example, when Disney determined that it did not have a right, it repeatedly entered into agreements with the PPT -- notwithstanding that Slesinger often owned the U.S. and Canadian aspects of the rights Disney desired. Ex. 25 (theme park rights); Ex. 23 (recognizing Disney did not have certain composition rights); Ex. 21 (agreement with PPT regarding "Club Disney"); Ex. 22 (Disney requesting permission from PPT to make a Pooh record).] Disney even indicated to Slesinger it was uncertain of the status of certain rights. *See* Ex. 18 at 1. And in 2001, when Disney acquired additional rights from the Milne parties for Milne's territories, Disney did not acquire these additional rights from Slesinger for Slesinger's territories. In fact, the Milne partner refused to warrant ownership of these additional rights for Slesinger's territories. Ex. 34 at 39-40.

If the 1983 Agreement meant "all of the rights" that Slesinger owned, the Agreement could have simply said: "Disney receives all rights Slesinger owned."

The fact that the language evidencing Slesinger's grant from Milne and Slesinger's license to Disney is different means the scope of the grants is different. At least it raises a material question of fact.

iii. Disney Was Not Granted Rights to Any of Slesinger's Creations

Disney also ignores that it did not receive any rights to Slesinger's creations. The "work" is defined under the 1983 Agreement as the 1920's books *Winnie the Pooh* and *The House at Pooh Corner*, and the 1920's collections of verses *When We Were Very Young* and *Now We Are Six*. 1983 Agreement, ¶3. Importantly, Slesinger (*via* its 1930 Agreement as amended) was granted specific rights regarding the works, including the right to create derivative works and the right to take out trademarks in Slesinger's own name. 1930 Agreement, ¶1; 1983 Agreement, 4(a). Conversely Disney's rights were limited to the above defined 1920's works.

This distinction between Slesinger and Disney's rights is important. Slesinger has the right to create derivative works of the characters (such as colorizing Pooh and placing a red shirt on him). Disney does not. Disney's rights were limited to the 1920's characters and illustrations.

Slesinger utilized these rights from 1930 to the 1960's, creating new and different versions of Pooh and his friends. These creations were detailed in a 1935 New Yorker article. Ex. 13. Slesinger's various derivative works, including the colorized red-shirted bear, can be seen in numerous items by Slesinger's licensees that pre-date Disney's 1961 license, including a 1933 Parker Brother's board game, plush dolls by Agnes Brush, and records. Slesinger also took out trademarks regarding the characters -- as the 1930 Agreement explicitly gave

Slesinger that right. Ex. 1, ¶1; Ex. 11 (trademarks).[13/] Disney even admits that Slesinger created the red shirted bear. Ex. 50; *see also* Exs. 15, 52.

Nowhere does Slesinger ***ever*** grant any rights to Disney that Slesinger owned independent of Milne. For example, in the 1983 Agreement, there is no grant of Slesinger's derivative works; there is no grant of rights to Slesinger's trademarks or the goodwill associated with Slesinger's trademarks.[14/] Ex. 6, 1983 Agreement. For these rights to have been granted to Disney, they must be spelled out because an assignment or exclusive license of the right to create derivative works must be spelled out in writing. *Micro Star v. Formgen Inc.*, 154 F.3d 1107, 1113 (9th Cir. 1998) ("Section 204 of the Copyright Act requires the transfer of the exclusive rights granted to copyright holders (including the right to prepare derivative works) to be in writing.") (citing 17 U.S.C. §204(a)). It is irrelevant what was customary between the parties or the industry -- Section 204 is clear. *See Effects Associates, Inc. v. Cohen*, 908 F.2d 555, 556-57 (9th Cir. 1990). While the writing could be simply a grant of "all right and title," no such grant to Disney ***of Slesinger's works*** appears in the 1983 Agreement. *Id.* at 557 (noting that Section 204's requirement "prevents misunderstandings by spelling out the terms of a deal in black and white.").[15/]

---

[13] Disney offers no evidence of Milne ever using the characters or names on goods or services. Thus, Milne could not have granted trademark rights to Disney – especially because the right to take out trademarks already went to Slesinger.

[14] Disney does not contest Slesinger's trademark claim based on Disney improperly asserting ownership in Slesinger's Pooh trademarks. As noted above, Disney does not even have an express license to those rights (let alone an assignment), and therefore this aspect of Slesinger's trademark claim must not be dismissed. See, e.g., 17 U.S.C. § 1125(a).

[15] Even though Disney was not granted any rights, in writing, to Slesinger's derivative works – which would be required if it was assigned or exclusively licensed, Disney has used some of those rights (such as to Slesinger's red-shirted bear) and, in some instances, paid Slesinger for using those rights. That conduct might mean that Disney has an implied license to some of those rights, as an implied license can be implied through conduct. *Effects*, 908 F.2d at 558-59, n. 6-7 (finding an implied license to the movie "The Stuff," notwithstanding that the parties had a written agreement that did not discuss ownership of the copyrights,

LAW OFFICES
COTCHETT, PITRE & MCCARTHY

Thus, the clear contrast between Slesinger's and Disney's grant, the Ninth Circuit's characterization of Disney's limited rights, the numerous indications in the contract that Disney's universe of rights was expressly constricted, and the absence of a grant of rights in *Slesinger's* own Winnie the Pooh creations, demonstrate the significant extent to which Disney did not obtain all rights which Slesinger possessed. As such, Disney's request for summary judgment/adjudication on these claims must fail.

3. The Court Cannot Find As a Matter of Law That Disney Is Not a Licensee

The grant to Disney is a license because Disney was not granted rights to all of Slesinger rights. "In 1961, SSI licensed certain rights of commercial exploitation to Disney. SSI and Disney modified their licensing agreements several times." *Slesinger,* 155 Cal.App.4th at 741. Moreover, the California Court of Appeal recognizes the grant as a license. *Id.* "A transaction which does not convey all the rights to a mark is a mere license, even though it may be called an assignment by the parties." *Callmann on Unfair Competition, Trademarks and Monopolies*, § 20:52 (4th Ed. 2007). The Ninth Circuit just three months ago reiterated this rule, holding that a purported "assignment" of copyrights that only transfers non-exclusives rights, is "a non-exclusive license." *Sybersound Records, Inc. v. UAV Corp.*, 517 F.3d 1137, 1146 (9th Cir. 2008).

Disney's argument that the 1983 Agreement is an assignment centers around the use of the word "assigns." However, the well established law is that whether a transfer of a particular right or interest "[i]s an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of its provisions." *Waterman v. Mackenzie*, 138 U.S. 252, 256, 11 S.Ct. 334 (1891);

---

because defendant paid for the footage in question). But the implied license would only extend to uses Slesinger has permitted – it would not allow uses that Slesinger has maintained are infringing.

Raber v. Pittway Corp., 1992 U.S.Dist. Lexis 6379 *4, 23 U.S.P.Q.2d (BNA) 1313 (N.D. Cal. May 4, 1992) ("Despite its antiquity, modern courts continue to follow *Waterman* . . . [w]hether an agreement be an assignment or a license is governed by its substance, not its label.") (citations and alterations omitted); see 3 J. Thomas McCarthy, *McCarthy on Trademarks* ("McCarthy") § 18:5 (2008) (a contract purporting to be a license may actually be an assignment, and one purporting to be an assignment may actually be a license). Therefore, the use of the word "assign" in the 1983 Agreement is irrelevant. The facts demonstrate Disney is a licensee.

First, the 1983 Agreement fails to expressly give Disney the right to sue. *Eichmeyer v. United States*, 10 Cl. Ct 598, 600, 231 U.S.P.Q. 820 (1986) ("It is true that a basic distinction between the transfer of a license and the transfer of a patent is whether the transferee has received the right to sue for infringement. If such a right to sue for infringement is transferred, the transferee has received an assignment. If no such right to sue is transferred, the transferee has received a license.") (citations omitted).

Second, there can be no sale of a trademark without selling its goodwill, which was not transferred here. McCarthy § 18:2 ("a trademark cannot be sold or assigned apart from the good will it symbolizes"); *see Twentieth Century Fox Film Corp. v. Marvel Enterprises, Inc.*, 155 F.Supp.2d 1 (S.D.N.Y. 2001), *aff'd in part and remanded*, 277 F.3d 253 (2d Cir 2002) citing *Cotton Ginny, Ltd. v. Cotton Gin, Inc.*, 691 F. Supp.1347, 1354 (S.D. Fla. 1988). The 1983 Agreement mentions nothing of the goodwill associated with the Pooh marks.

Third, "an assignment must be permanent and perpetual, while a license may be temporary, provisional or conditional." *Callmann on Unfair Competition*, Trademarks and Monopolies, § 20:52 (4th Ed. 2007). Paragraphs 11 ($3,000 minimum royalty or rights terminate) and 15 (contemplating termination of the Agreement) demonstrate that the 1983 Agreement is temporary and conditional, not permanent and perpetual.

Disney's own acts demonstrate the 1983 Agreement is a license to Disney. In 2002, Disney entered into a 24-page agreement with A.A. Milne's only living heir, Clare Milne, whereby Disney purchased her purported right of termination (the "Reversion Agreement"). MSJ Order, at 11; Ex. 38. In 2001, Disney entered into a detailed agreement whereby Disney purchased Milne and Hunt's rights, paying a significant sum -- £200 million plus interest (the "Buy-Out Agreement"). MSJ Order, at 10; Ex. 34 at ¶ 3.1.1. As part of these agreements, Disney conducted extensive due diligence and concluded that its agreement with Slesinger was indeed a <u>license</u>. Ex. 38, page 1, clause E.

Additionally, the principal drafter of the 1983 Agreement, Disney's Peter Nolan, Esq., confirmed during the negotiations that Disney was a mere "user" -- a licensee -- of the Pooh rights. In support of the argument that Disney did not have an obligation to legally defend the copyrights, Mr. Nolan claimed that Disney was just merely "using" the rights. Accordingly, Disney's contemporaneous view from 1983 is consistent with Slesinger's position today: Disney is a <u>licensee</u> of the rights. Ex. 17 at 3.

Disney's current arguments to the contrary are without merit. For example its claim that Slesinger did not allegedly restrict Disney from applying for registrations of trademarks under the 1983 Agreement is supported by a citation to a <u>sample</u> license in McCarthy. Disney Motion at 31:4-5 (citing McCarthy § 18:64). In addition, its argument that there was no quality control provision also fails as the Ninth Circuit has held that a licensor can rely on the licensee to control quality in circumstances like those here:

> [T]he lack of an express right to inspect and supervise a licensee's operations is not conclusive evidence of a lack of control. There need not be formal quality control where the particular circumstances of the licensing arrangement indicate that the public will not be deceived. Indeed, courts have upheld licensing agreements where the

licensor is familiar with and relies upon the licensee's own efforts to control quality.

Barcamerica Int'l USA Trust v. Tyfield Imps., Inc., 289 F.3d 589, 596 (9th Cir. 2002). Here, Disney is a much larger and sophisticated party than Slesinger, and Disney has a good reputation and long-standing history of making the products that were used with the mark. So it was reasonable for Slesinger not to have to constantly watch over Disney's shoulder. *See Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1017-1018 (9th Cir. 1985) (consider quality control based on the facts); *Edwin K. Williams & Co. v. Edwin K. Williams & Co. East, Inc.*, 542 F.2d 1053, 1060, 191 U.S.P.Q. (BNA) 563 (9th Cir. 1976) ("The amount of control required varies with the circumstances."). Therefore, the Court cannot say as a matter of law that Disney received an assignment rather than a license. There are material questions of fact.

C. DISNEY INFRINGED ON SLESINGER'S COPYRIGHT

The law is clear: "[c]opyright licenses are presumed to prohibit any use not authorized." *Playmedia Sys., Inc. v. America Online, Inc.*, 171 F.Supp.2d 1094, 1099 (C.D.Cal. 2001) (citing *S.O.S., Inc. v. Payday*, 886 F.2d 1081, 1088 (9th Cir. 1989)). All of Disney's uses of ungranted rights are subject to claims of infringement, and because of Disney's ubiquitous use of Pooh, factual question remain as to the extent of Disney's uses outside of the 1983 Agreement. Ex. 45 ("Winnie the Pooh is supported by every division of The Walt Disney Company.").

D. THERE IS NO JUDICIAL ESTOPPEL

For judicial estoppel to apply, the party against whom the judicial estoppel is sought must have prevailed on a position in the first case and taken a contrary position in a second case. *New Hampshire v. Maine*, 532 U.S. 742, 749, 121 S.Ct.1808 (2001). Even then, its application is discretionary *Id.* at 750. Different circuits apply judicial estoppel using different tests. In the Ninth Circuit, courts:

> [G]enerally consider three factors when determining whether to apply the doctrine of judicial estoppel. First, we determine whether "a party's later position [is] 'clearly inconsistent' with its earlier position." *New Hampshire v. Maine*, 532 U.S. 742, 750, 121 S. Ct. 1808, 149 L. Ed. 2d 968 (2001) (citations omitted). Second, we inquire whether the party achieved success in the prior proceeding, since "judicial acceptance of an inconsistent position in a later proceeding would create 'the perception that either the first or the second court was misled.'" *Id.* (citation omitted). Finally, we consider whether the party asserting an inconsistent position would achieve an unfair advantage if not estopped. *Id.* at 751.

United Steelworkers of Am. v. Retirement Income Plan, etc., 512 F.3d 555, 563 (9th Cir. 2008).[16/]

Disney must show that the two positions were "necessarily inconsistent," a burden it has not met. The state breach of contract case did not concern which party granted rights; it only concerned Disney's obligation to pay royalties under paragraph 10 of the 1983 Agreement, for which it is irrelevant who granted which right. In *United Steelworkers*, a union filed an action against the Retirement Plan for a bankrupt company. The Plan moved to stay because of the bankruptcy and argued that the union was judicially estopped from arguing that the company was not a necessary party because of the union's arguments in the motion to dismiss based on the party being necessary to the litigation. The Ninth Circuit disagreed and explained: "There is a crucial distinction between arguing that a party is proper and should not be dismissed, and arguing that a party is necessary and the litigation cannot proceed without it. More importantly, the district court never held that ASARCO was a necessary party to the litigation. Instead, the district court held only that ASARCO "acted as plan administrator" and was therefore "a proper

---

[16] Disney's reliance on out-of-circuit cases that do not follow the Ninth Circuit interpretation of judicial estoppel should be disregarded.

party to this action." *Id.* at 563-564; *see also Wyler Summit v. Turner Broadcasting System*, 235 F.3d 1184, 1190-91 (9th Cir. 2000).

Here, Disney has not met its burden of showing that the statements Slesinger made in the state case are necessarily inconsistent, since the issue of which party (Slesinger or Milne) owned the rights were not relevant to the state case. Disney's citations pertain to specific disputes, not general statements, and must be read in context. For example, its citations to responses to interrogatories, Disney Exs. 23 at 5:28-6:4, 57 at 17:22-24 (Disney Motion at 26:14-24), omit key language from the interrogatories that qualify the response. Slesinger explicitly stated that "Slesinger reserves all of its right to the extent there was no meeting of the minds and Disney did not intend to acquire Slesinger's 'further rights.'" Disney Ex. 23 at 6:3-4. Since Disney contested Slesinger's positions, there is nothing necessarily inconsistent with Slesinger asserting its current position.[17/]

Nor has Disney shown that Slesinger's positions were necessarily adopted by the Court and that Slesinger succeeded (especially considering the fact that judgment was entered against Slesinger). *Perretta v. Prometheus Develop. Co.*, 520 F.3d 1039 (9th Cir. 2008) (requiring "success" in the prior proceeding for there to be judicial estoppel). There is no demonstration by Disney that alleged inconsistent statements were adopted by the Court. *Shropshire v. Fred Rapporport Co.*, 294 F.Supp.2d 1085, 1097 (N.D.Cal. 2003) ("Because there was no judicial acceptance of Plaintiffs' earlier position in the final judgment in the state court action, it is unnecessary to invoke the doctrine of judicial estoppel to protect the integrity of the judicial process."). Lastly, Disney has failed to show that it will be prejudiced by these alleged inconsistent statements (*i.e.* that Slesinger received an unfair advantage). Accordingly, Disney has failed to demonstrate that the drastic remedy of judicial estoppel applies.

---

17 Disney cannot rely on a settlement conference statement, Disney Motion at 25:13-25, because it is inadmissible. Federal Rule of Evidence Rule 408.

E. THE CLAIMS RE DISNEY'S SCHEME ARE VIABLE

Disney's also incorrectly claims that because its scheme allegedly "failed," various causes of action are now moot.

1. ALL OF SLESINGER'S CLAIMS HAVE MERIT[18]

a. The Copyright Infringement Claim is Viable

Slesinger's copyright infringement claim, is based on multiple grounds, particularly the fact that Disney has exercised rights outside of its license, and the scheme by Disney (and others) to deprive Slesinger of ownership rights in its copyrights. Disney does not dispute Slesinger's infringement claim based on uses outside of the license in Section VI; it only focuses here on the claim regarding Disney's scheme. Regardless, it is clear that Disney's uses outside of its license are actionable. *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1121, 51 U.S.P.Q.2d (BNA) 1825 (9th Cir. 1999) ("If, however, a license is limited in scope and the licensee acts outside the scope, the licensor can bring an action for copyright infringement."); *Gilliam v. American Broadcasting Co.*, 538 F.2d 14, 20 (2d Cir. 1976).

Furthermore, it is copyright infringement to unlawfully attempt to deprive a copyright owner of its rights or to unlawfully take rights from a true owner. *See Jett v. Ficara*, 2007 U.S.Dist. Lexis 96398, *16-17 (S.D.N.Y. July 31, 2007) ("Authorizing another to exploit the copyrights-in-suit also is a copyright infringement...Thus, by purporting to authorize the manufacture and distribution of the albums [defendants] have committed copyright infringement") (citing *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 432-33, 106 S.Ct. 774 (1984)). Disney tried to deprive Slesinger of its rights in copyright relating to

---

18 This Court, in ruling on Slesinger's motion to amend, Docket No. 188 at 6:1-7:14 (Aug. 3, 2004), and the ongoing viability of Slesinger's counter-claims, Docket No. 371 (Mar. 27, 2007); *see also* No. Docket 98, considered and rejected for purposes of those motions many of Disney's arguments raised herein. The Court can consider these rulings law of the case. *See Johnson v. Couturier*, 2007 U.S. Dist. Lexis 81847 (E.D. Cal. 2007).

Pooh via the termination scheme and paid a significant price to another to purchase rights that lawfully belonged to Slesinger, via the Reversion Agreement. Ex. 38. That scheme and the Reversion Agreement are thus copyright infringements (direct and contributory) or, at a minimum, summary judgment and adjudication are inappropriate.

b. The Breach of Contract and Implied Covenant Claims Are Also Viable

Slesinger's Breach of the Implied Covenant and Breach of Contract claims are viable to the extent those claims are related to Disney's attempt to undermine the 1983 Agreement via its scheme, are not moot.

As the California courts have recognized, "[t]here is implied in every contract a covenant by each party not to do the anything which will deprive the other parties thereto of the benefits of the contract... This covenant not only imposes upon each contracting party the duty to refrain from doing anything which would render performance of the contract impossible by any act of his own, but also the duty to do everything that the contract presupposes that he will do to accomplish its purpose." *Harm v. Frasher*, 181 Cal.App.2d 405, 417, 5 Cal.Rptr. 367 (1960); *Ninety Nine Investments, LTD v. Overseas Courier Serv. (Singapore) Private, LTD*, 113 Cal.App.4th 1118, 1131, 6 Cal.Rptr.3d 891 (2004) (the covenant prevents a party from doing "anything which prevents realization of the fruits of performance") (emphasis omitted). This duty exists "even though the actor believes his conduct to be justified." Rest.2d Contracts §205. Examples include "conjuring up a pretended dispute" and "abuse of a power to determine compliance or to terminate the contract." *Id.* (comment e). It is immaterial that Disney's scheme failed; the claims are based on Disney's efforts to deprive Slesinger of the benefits of the contract. *See Brawley v. Crosby Research Found*, 73 Cal.App.2d 103, 112, 166 P.2d 392 (1946) (where a contract gives an exclusive license to develop, exploit and commercialize an invention, the licensee was bound by an implied covenant to make its "best efforts" to do that). That is because good faith and fair dealing is defined as "faithfulness to an agreed common purpose and consistency with the justified expectations of the other party [and] excludes ... a variety of types of conduct characterized ... as involving 'bad faith' because they violate community standards of decency, fairness, or reasonableness." *Careau & Co. v. Security Pacific Business Credit, Inc.*, 222 Cal.App.3d 1371, 1393 n.15, 272 Cal.Rptr. 387 (1990) (quoting Rest.2d Contracts §231, com. a). Disney's scheme to eliminate Slesinger was clearly not "good faith" or "fair dealing."

Disney's only argument is that the implied covenant cannot contradict a term already in the contract. Mot. at 32:12-23. But Slesinger asserts no contradiction. The 1983 Agreement specifically provides that the consideration of the contract was based in part on the parties being "desirous of entering into a new agreement for the future which the parties believe would not be subject to any right of termination under 17 U.S.C. §§203 or 304(c)." Ex. 6 at 2. Thus, a purpose of the 1983 Agreement was to avoid dealing with copyright termination notices; Slesinger decreased its royalty as part of the consideration for that promise.

Yet Disney breached that agreement and the implied covenant: Disney financed the legal fees of Milne and Hunt, to have them attempt to terminate Slesinger's rights, despite knowing what Disney had promised under the 1983 Agreement. Ex. 38 (Reversion agreement). As this Court has already recognized, Disney even indemnified Milne and Hunt for all legal liabilities stemming from their attempt. MSJ Order, at 11. Clearly, such actions are an attempt by Disney to deprive Slesinger of the royalty stream it is entitled, and thus these claims are not moot. Slesinger believes these violations are clear, but at a minimum, it is factual dispute that justifies discovery.

c. The §17200 Claim Is Not Moot

Disney's actions justify a §17200 claim. First, there is no doubt Slesinger has a claim that Disney's actions were **unfair**. As this Court has already noted, a claim under §17200 as unfair can be broadly based -- merely requiring "[a]ny person who engages, has engaged, or proposes to engage in unfair competition." Docket 188 (Disney Ex. 10) at 6:28-7:1. *Ticconi v. Blue Shield of Ca. Life & Health Ins. Co.*, 160 Cal.App.4th 528, 539, 72 Cal.Rptr.3d 888 (2008) ("The 'unfair' standard . . . is intentionally broad, thus allowing courts maximum discretion to prohibit new schemes to defraud."); *see also* footnote, 18, *supra*. Disney's attempt to steal Slesinger's royalty stream with paid for termination notices -- especially when the purpose of the 1983 Agreement was to avoid that from happening -- is clearly unfair, or at a minimum involves a genuine issue of fact.

Second, Disney's actions were **unlawful**. "An 'unlawful' business activity includes anything that can properly be called a business practice and that at the same time is forbidden by law." *Ticconi*, 160 Cal. App. 4th at 539. As described above, these actions are at a minimum copyright infringement. Moreover, Disney's action of inducing the termination notices via the Reversion Agreement is a grant that is forbidden by 17 U.S.C. § 304(c)(6)(D). Thus, for multiple reasons, Disney's actions were unlawful under §17200.

Third, Disney's actions are **fraudulent**. "The term 'fraudulent' as used in section 17200 does not refer to the common law tort of fraud but only requires a showing members of the public 'are likely to be deceived.'" *Puentes v. Wells Fargo Home Mort., Inc.*, 160 Cal.App.4th 638, 645, 72 Cal.Rptr.3d 903 (2008) (quotations omitted). Disney's claims that it owns Pooh, Ex. 39; that Slesinger contributed nothing to Pooh -- which is clearly false, Exs. 57; ownership of Pooh trademarks; and its use of Pooh outside of its license with Slesinger, are all examples of how Disney is likely to have deceived the public regarding Slesinger and its rights.

Thus, Slesinger's §17200 claims are not moot, or at a minimum, Slesinger is entitled to discovery on the issue.

d. Claims 10 and 12 are Proper

Disney argues that Claims 10 (injunctive relief) and 12 (termination of Disney's rights under the 1983 Agreement) are not appropriate because they request remedies and the underlying claims (for unfair competition, fraud and fraud of contract) fail. Since those claims do not fail, Disney's argument must.

XII. CONCLUSION

For the reasons set forth above, and good cause, the Court should deny Disney's motion for summary judgment, or alternative summary adjudication, or continue this motion to allow Slesinger to conduct discovery on these issues.

Dated: May 12, 2008

COTCHETT, PITRE & McCARTHY

By: /s/ Nancy L. Fineman
NANCY L. FINEMAN

MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO, P.C.

By: /s/ Harvey Saferstein
HARVEY SAFERSTEIN
Attorneys for Defendant and Counter-Claimant Stephen Slesinger, Inc.

EXHIBIT C

DANIEL M. PETROCELLI (S.B. #97802)
dpetrocelli@omm.com
ALAN RADER (S.B. #45789)
arader@omm.com
VICTOR JIH (S.B. #186515)
vjih@omm.com
JUSTIN M. GOLDSTEIN (S.B. #198858)
jgoldstein@omm.com
O'MELVENY & MYERS LLP
1999 Avenue of the Stars, 7th Floor
Los Angeles, CA 90067-6035
Telephone: (310) 553-6700
Facsimile: (310) 246-6779

Attorneys for Counter-Defendants
DISNEY ENTERPRISES, INC., THE WALT DISNEY COMPANY, AND WALT DISNEY PRODUCTIONS

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

CLARE MILNE, an individual, by and through MICHAEL JOSEPH COYNE, her RECEIVER, and DISNEY ENTERPRISES, INC.

Plaintiffs,

v.

STEPHEN SLESINGER, INC.,

Defendant.

STEPHEN SLESINGER, INC.,

Counter-Claimant,

v.

DISNEY ENTERPRISES, INC.; THE WALT DISNEY COMPANY; and WALT DISNEY PRODUCTIONS,

Counter-Defendants.

Case No. CV-02-08508 FMC (PLAx)

COUNTER-DEFENDANTS DISNEY ENTERPRISES, INC., THE WALT DISNEY COMPANY, AND WALT DISNEY PRODUCTIONS' REPLY IN SUPPORT OF MOTION FOR SUMMARY JUDGMENT OR, IN THE ALTERNATIVE, FOR SUMMARY ADJUDICATION OF COUNTER-CLAIMANT STEPHEN SLESINGER, INC.'S COUNTERCLAIMS

The Hon. Florence-Marie Cooper

Date: June 9, 2008
Time: 10:00 a.m.
Place: Courtroom 750

TABLE OF CONTENTS

TABLE OF AUTHORITIES

CASES

TABLE OF AUTHORITIES (CONTINUED)

TABLE OF AUTHORITIES (CONTINUED)

TABLE OF AUTHORITIES (CONTINUED)

STATUTES

OTHER AUTHORITIES

I. INTRODUCTION.

What the Court of Appeal termed SSI's "deliberate indifference to the truth" permeates SSI's opposition to avoid summary judgment.[1] In defiance of the trial court's extensive findings detailing SSI's abuse of the judicial process, the Court of Appeal's unanimous affirmance, and the California Supreme Court's refusal to disturb the decision and opinion, SSI tells this Court its misconduct "did not occur." (Opp. at 2:20.) The proof of SSI's egregious—*illegal*—actions was overwhelming, as the trial and appellate courts emphatically declared. SSI goes so far as to suggest to this Court that despite the dismissal with prejudice of all its claims, the Court of Appeal intended the judgment against SSI have no preclusive effect. (Id. at 1:24-2:2.) The Court of Appeal intended no such divergence from controlling authority. Its reminder that the law favors plenary trials actually emphasizes that the terminating sanction against SSI has preclusive effect—requiring summary judgment on its contract and fraud claims in this Court.

With the same indifference to the truth, SSI tells this Court that it has ownership interests in the Pooh rights when, for more than a decade in the state litigation, it repeatedly acknowledged and swore to just the opposite—insisting that the parties' 1983 Agreement transferred all of SSI's intellectual property rights to Disney. Judicial estoppel forbids SSI from now reversing course and claiming Disney never received the rights it has been marketing to SSI's great profit for nearly a half century. Likewise, SSI's efforts to obfuscate the meaning of the 1983 Agreement are belied by the Agreement's unequivocal grant language. Summary judgment is timely, proper, and essential.

II. THERE IS NO IMPEDIMENT TO SUMMARY JUDGMENT.

SSI's claim that it lacked a "full opportunity to prepare an opposition," (Opp. at 4:17), is unfounded. In the meet and confer process, Disney explained to SSI

[1] *Stephen Slesinger, Inc. v. Walt Disney Co.*, 155 Cal. App. 4th 736, 766 (2007).

that it was seeking dismissal of SSI's counterclaims based on preclusion and "on the ground that certain counterclaims fail to state a claim for relief and are otherwise unsupported by, and contrary to, the undisputed evidence." (Ex. 87 at 1.) More than six weeks before SSI's opposition was due, Disney stated its intention "to denominate its motion as one for summary judgment." (Goldstein Decl. ¶ 4, Ex. 88.) SSI neglects to disclose that Disney also offered to extend the briefing schedule, and that SSI refused. (*Id.* ¶ 3.) Nor can SSI complain about the need for discovery, since it chose not to submit an affidavit showing the specific reasons it cannot "present facts essential to justify its opposition." FED. R. CIV. P. 56(f).

SSI also overstates the requirements for summary judgment. Disney has satisfied its burden under *Celotex v. Catrett*, 477 U.S. 317, 325 (1986). As explained below, SSI has failed to meet its burden of identifying specific facts showing a genuine issue for trial. *Id.* Only genuine disputes over facts that might affect the outcome of the action preclude the entry of summary judgment. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). Where, as here, the opposing party fails to provide specific evidence sufficient to meet these standards, summary judgment must be granted as a matter of law. FED. R. CIV. P. 56(e); *see Batzel v. Smith*, 372 F. Supp. 2d 546, 549 (C.D. Cal. 2005).

III. THE CONTRACT AND FRAUD COUNTERCLAIMS ARE BARRED BY THE STATE COURT JUDGMENT.

A. The State Court Judgment was "On the Merits."

SSI argues that neither res judicata nor collateral estoppel applies because the state court judgment does not qualify as a decision on the merits. But SSI fundamentally misstates what "on the merits" means for purposes of res judicata and collateral estoppel.

The trial court's dismissal of SSI's state court action was *with prejudice*. (Ex. 8; Ex. 8A.) SSI appealed from that judgment and lost. *Slesinger*, 155 Cal. App. 4th at 777. Under California law, a dismissal with prejudice "is a bar to a subsequent action on the same cause; otherwise there would be no meaning to the 'with prejudice' feature. A dismissal with prejudice terminates the action and the rights of the parties are affected by it. It is a final judgment in favor of defendants." *Roybal v. Univ. Ford*, 207 Cal. App. 3d 1080, 1085-86 (1989) (citations omitted). Thus, a dismissal with prejudice "is equivalent to a judgment on the merits." *Torrey Pines Bank v. Super. Ct.*, 216 Cal. App. 3d 813, 820-22 (1989); *see also Long Beach Grand Prix Ass'n v. Hunt*, 25 Cal. App. 4th 1195, 1202-03 (1994). In that sense, "the term ['on the merits'] is misleading, because many dispositions short of trial are considered 'on the merits' for claim preclusion purposes even though the validity of some or all of the theories of liability, claims for relief, and defenses of the parties may remain undetermined." 18 JAMES MOORE ET AL., MOORE'S FEDERAL PRACTICE § 131.30[3][a] (2004).

Although not controlling here, federal court decisions are in accord and consistently recognize "the general premise that a dismissal with prejudice has res judicata effect . . . because [such dismissals] are on the merits." *In re Marino*, 181 F.3d 1142, 1144 (9th Cir. 1999). For that reason, "[t]he phrase 'final judgment on the merits' is often used interchangeably with 'dismissal with prejudice.'" *del Campo v. Kennedy*, 491 F. Supp. 2d 891, 902 (N.D. Cal. 2006).[2]

There could be no other rule. If a party could simply relitigate claims that were dismissed with prejudice, "there would be no meaning to the phrase 'with prejudice' and [the opposing party] would suffer prejudice from being forced to defend against successive suits involving matters already finally determined." *Alpha Mech., Heating & Air Conditioning, Inc. v. Travelers Cas. & Sur. Co. of Am.*, 133 Cal. App. 4th 1319, 1334 (2005) (citations omitted). That principle fully applies to a terminating sanction; otherwise, "litigants or their counsel could turn a

[2] *See also* 47 AM. JUR. 2D *Judgments* § 547 (2007) (the "well-recognized legal import" of a dismissal with prejudice is "an adjudication of the merits, that . . . operates as res judicata[,] concludes the rights of the parties[,] terminates the right of action[, and] precludes the subsequent litigation of the same cause of action, as if the action had been tried to final adjudication.").

deaf ear to the processes of the court with impunity, suffering dismissals only to arise phoenixlike in new actions based on the same allegations." *Kahn v. Kahn*, 68 Cal. App. 3d 372, 383 (1977). Recognizing that "such a situation is patently intolerable," California courts have confirmed that a terminating sanction "constitutes a judgment on the merits" for purposes of preclusion. *Id.* at 384, 387; *Franklin Capital Corp. v. Wilson*, 148 Cal. App. 4th 187, 207 (2007).

In *Kahn*, the court terminated the plaintiff's case because he failed to comply with discovery obligations. 68 Cal. App. 3d at 382. SSI concedes that a party's "refusal to comply with an order for the production of evidence is tantamount to an admission that the disobedient party really has no meritorious claim or defense to the action," (Opp. at 9:12-14 (emphases omitted) (quoting *Kahn*, 68 Cal. App. 3d at 382)), but argues that the rationale and holding do not apply here because "the judgment was not based on Slesinger's failure to introduce evidence, but instead, on collateral matters." (*Id.* at 12:1-2.)

Nothing about this argument is correct. In light of California's policy that dismissals with prejudice are "on the merits" for res judicata and collateral estoppel purposes, it is immaterial whether the circumstances suggest the dismissed party lacked confidence in its claims. In addition, like the *Kahn* plaintiff, SSI violated its obligations to provide discovery. (Ex. 8 at 24 (confirming that SSI repeatedly failed and refused to comply with court orders requiring it to "supply certain key information and documents on point").) Hence, even crediting SSI's constrained reading of *Kahn*, the terminating sanction reflected SSI's admission that its case lacked merit.

Of course, the reasoning and result in *Kahn* are not confined to discovery violations. As the Court of Appeal observed, SSI's behavior was a "portrait of litigation misconduct run riot," so severe that the resulting "threat to the integrity of the judicial process [required] decisive, effective and stern sanctions to fully protect the institution of justice, its processes and its litigants from future abuse."

Slesinger, 155 Cal. App. 4th at 741; Ex. 8. It would be, to use a phrase from *Kahn*, a "patently intolerable" result to allow SSI to relitigate its claims because its discovery violations were the least of its transgressions. 68 Cal. App. 3d at 383. Allowing a party like SSI "to suffer no consequences other than the delay of filing a new action after his first has been dismissed would seem to be an absurdity." *Id.*

SSI cites three other cases—*Johnson v. City of Loma Linda*, 24 Cal. 4th 61 (2000), *Lunsford v. Kosanke*, 140 Cal. App. 2d 623 (1956) and *Campanella v. Campanella*, 204 Cal. 515 (1928)—to argue that absent adjudication of the substance of a claim, dismissal cannot be "on the merits." (Opp. at 10-11.) All three are immediately distinguishable, and none involved a terminating sanction or even an indication that a dismissal with prejudice was at issue.[3]

B. <u>SSI's Precluded Contract-Based Claims Are Not Resurrected by the "Continuing Duty" Exception</u>.

SSI posits a fallback argument: if the Court determines the state judgment is "on the merits," the narrow "continuing duty" exception to res judicata should be construed broadly to allow SSI to proceed with all its state law claims. This is unfounded. The "continuing duty" exception exists to ensure that parties to installment contracts can still enforce their uncontested right to periodic payments. *See Armstrong Petroleum Corp. v. Tri-Valley Oil & Gas Co.*, 116 Cal. App. 4th 1375, 1388 (2004); *Sutphin v. Speik*, 15 Cal. 2d 195, 202 (1940). The exception does not open the door to repeated chances to relitigate the interpretation of a contract. That is forever precluded where, as here, the question is one of *entitlement* under the agreement at issue as opposed to *performance* of contractual

---

[3] In *Johnson*, the court found preclusion did not attach to a judgment denying a petition for writ of administrative mandate based on the technical ground of laches. 24 Cal. 4th at 76-77. *Lunsford* involved a judgment based entirely on a finding that the allegations in the complaint were so technically deficient that the court, *ab initio*, had no opportunity to receive evidence or reach the merits of the dispute. 140 Cal. App. 2d at 628. In *Campanella*, the court concluded that res judicata could not apply where there was no indication as to the grounds for dismissal. 204 Cal. at 520.

obligations. "The concept of a continuing [breach] . . . has no application where the plaintiff is seeking to establish his right to receive the payments." *Mezey v. State of Cal.*, 161 Cal. App. 3d 1060, 1064 (1984); *see also Legg v. Mut. Ben. Health & Accident Ass'n*, 184 Cal. App. 2d 482, 486-87 (1960); *Legg v. United Benefit Life Ins. Co. of Omaha*, 182 Cal. App. 2d 573, 580 (1960); *Smith v. Los Angeles*, 190 Cal. App. 2d 112, 127-28 (1961).[4]

SSI tries to blur this pivotal distinction: "Because Disney had an obligation to make royalty payments," SSI "cannot be barred from suing for these underpayments, including those alleged [in the paragraphs of the counterclaims that restate the precluded claims in SSI's state complaint]." (Opp. at 17:22-24.) SSI also protests: "The state court decision cannot be used to forever bar Slesinger's right to sue Disney for breaching th[e] 1983 Agreement." (*Id.* at 15:11-13.)

Disney said no such thing, and SSI's construct is false. Disney does not assert that SSI can never make a claim for unpaid royalties. (*See* Mot. at 19 n.4.) It just cannot relitigate the scope of its entitlement to royalties or the proper method for their calculation. SSI's false construct disregards the critical dividing line between entitlement and performance claims, without which there would never be finality on contract interpretation questions.

The mechanism for drawing the line between entitlement and performance is the "primary right" doctrine. As explained in Disney's opening brief, preclusion under California law extends to all claims and issues embraced by the primary rights at issue in the concluded matter. Here, that encompasses all of SSI's contract-based claims, whether sounding in contract or tort, that were actually

---

[4] SSI argues that *Legg* and *Smith* were "decided under the issue preclusion arm of *res judicata*, not claim preclusion." (Opp. at 20:9-10.) But these cases address both claim and issue preclusion, and thus must be considered in analyzing both. *Legg*, Cal. App. 2d at 486-87 ("a new cause of action [did] not arise after the former judgment merely because some time had elapsed"); *Legg*, 182 Cal. App. 2d at 580 (prior judgment was "a complete bar to subsequent actions"); *Smith*, 190 Cal. App. 2d at 127-28 (claim and issue preclusion apply where two actions involve "a right, title or issue as to which the judgment in the first action is a conclusive adjudication") (citation omitted).

litigated or "could have been litigated." *Mycogen Corp. v. Monsanto Co.*, 28 Cal. 4th 888, 896 (2002); *see also Monterey Plaza Hotel Ltd. Pshp. v. Local 483 of the Hotel Employees Union*, 215 F.3d 923, 928 (9th Cir. 2000); *Tensor Group v. City of Glendale*, 14 Cal. App. 4th 154, 160 (1993) ("If the matter was within the scope of the action, related to the subject matter and relevant to the issues, so that it *could* have been raised, the judgment is conclusive on it despite the fact that it was not in fact expressly pleaded or otherwise urged.") (citation omitted) (emphasis original).

C. <u>SSI's Purported "New" and "Different" Claims Are Neither</u>.

SSI does not—because it cannot—respond to Disney's point-by-point comparison between the state court complaint and the counterclaims. (Mot. at 12-21.) Instead, SSI asserts another fallback argument: that even if the state court judgment was on the merits, and even if SSI is precluded from pursuing all of its state claims, some of its counterclaims fall outside the ambit of the primary rights at issue in state court. This contention fails because SSI cannot identify any new primary rights, and it cannot simply "plead[] different theories of recovery, seek[] different forms of relief and/or add[] new facts supporting recovery." *Alpha*, 133 Cal. App. 4th at 1332 (citation omitted). Nor can SSI generally allege that it "suffered new or different damages as a result of Disney's continued underpayment." (Opp. at 19:27-28.)

The simple way to test SSI's assertion of new claims is to ask whether they were, or could have been, litigated in the state case. The only claim that might qualify is one that: (1) does not address contract entitlement issues; or (2) is based on new breach claims unrelated to SSI's alleged entitlements under the 1983 Agreement; or (3) raises an entirely different primary right. None of SSI's contract-based claims meets that test, and some do not even qualify as claims. For example:

- SSI argues it is free to litigate its allegation in Paragraph 71 of the FAAC that Disney is not properly calculating royalties for "commercialization" of the Pooh Characters because that Paragraph "cites to the language of the 1983 Agreement." (Opp. at 16:22-28.) That claim is barred because it was at issue in the state litigation. On the other hand, if SSI had a basis for asserting that Disney stopped paying royalties under the methodology it challenged in state court (and SSI identifies no such basis) it might be entitled to pursue that claim under the "continuing duty" exception.

- SSI argues that a new primary right exists to seek royalties for "new technologies, *e.g.*, ring tones, virtual pets." (Opp. at 19:4-5.) Although it may not have specifically identified virtual pets and the like in its state complaint, SSI certainly did broadly claim entitlement to royalties on "new technology," including any "goods [or services] known or developed in the future." (Ex. 6 ¶ 11(a), (g)-(i); Ex. 73 at 5:3-14:19.)

- SSI says its claim for royalties from Hong Kong Disneyland cannot be precluded because that park did not open until after the state court judgment. (Opp. at 18:15-24.) That sequence of events does not make SSI's claim to such royalties new. Instead, it just identifies another location where the entitlement question applies. Questions surrounding Disney's accounting for theme park revenues (Tokyo Disneyland, in particular) were litigated in state court, and SSI is precluded from relitigating them for any park, old or new. (*See* Ex. 6 ¶ 11, Ex. 50 at 10:15-11:1, Ex. 65 at 3:8-18, Ex. 27 at 21:15-22:2, 22:16-24, Ex. 75 at 288:10-289:5, Ex. 52 at 15:19-16:21.)

- The same is true of SSI's claim that, following the 2002 Milne Buyout Agreement, Disney adopted that agreement's methodology for calculating SSI's royalty entitlement on the "gross received" from third party "advances and guarantees." (Opp. at 18:25-19:4; Ex. 12 ¶ 155.) The same complaint was at issue in the state case, and is thus precluded by the state judgment. (Mot. at 16:18-26.)

- Some of SSI's "new" claims are patently deficient. SSI speculates that changes in the number of pages in Disney's royalty statements indicates underpayment. (Opp. at 18:22-24.) Similarly, SSI's separate "Uncontested Statements of Facts" speculates that a decline in royalty payments between 2002 and 2007 indicates underpayment. (SSI Stmt. at 94:14-19.) SSI also assumes underpayment from the appearance of negative figures on a royalty statement. (*Id.* at 18:20-19:6.) These changes from statement to statement, even if true, do not support a claim that Disney underpaid royalties according to its contractual duties; at most they invite speculation about why Pooh sales are not constant.

D. Collateral Estoppel Independently Bars SSI from Relitigating Its Contract-Based Counterclaims Because the Underlying Issues Were "Material Allegations" in SSI's State Complaint.

As Disney explained in its motion, SSI's state and federal claims involve *identical* claims encompassing *identical* issues, with only slight variations in pleading language: that is, the overlap is "near perfect." (Mot. at 8-22.) SSI's characterization of Disney's use of that term as an implicit admission that collateral estoppel does not apply, (Opp. at 13:13-17), is specious. Disney's motion demonstrates in detail that the overlap is far more than sufficient to warrant application of collateral estoppel, which properly attaches to "all material allegations" in SSI's state complaint. Where a party's complaint is dismissed with prejudice, all issues raised in the complaint are deemed "actually litigated" and "necessarily decided," precluding relitigation of the same issues. *See Alpha*, 133 Cal. App. 4th at 1333-34 (applying collateral estoppel effect to issues in cross-complaint after plaintiff voluntarily dismissed it with prejudice).[5] If SSI were allowed to relitigate those same contract-based issues now, "there would be no meaning to the phrase 'with prejudice' and [Disney] would suffer prejudice from

[5] Similarly, California courts recognize entry of judgment upon default "conclusively establishes . . . the truth of all material allegations contained in the complaint in the first action, and every fact necessary to uphold the default judgment." *Gottlieb v. Kest*, 141 Cal. App. 4th 110, 149 (2006).

being forced to defend against successive suits involving matters already finally determined." *See Alpha*, 133 Cal. App. 4th at 1334 (citations omitted).

IV. SSI LACKS STANDING TO BRING INFRINGEMENT CLAIMS, AND ITS COPYRIGHT AND TRADEMARK CLAIMS ARE OTHERWISE NOT ACTIONABLE.

Disney seeks summary judgment on SSI's infringement claims on the ground that SSI lacks standing. SSI responds that there are "material facts in dispute" regarding its newly asserted claim to an ownership interest in Pooh rights. (Opp. at 20:19-22.) There are not. For more than 20 years in state court, SSI repeatedly acknowledged and confirmed that it had granted all its transferable interests in the Pooh Works to Disney.[6] This circumstance alone provides all the support necessary to summarily adjudicate SSI's intellectual property claims.

SSI's consistent representations in the earlier lawsuit that all rights were transferred to Disney are not only binding, but also the only truthful thing SSI could have said—and should be saying now—given the parties' half-century history, during which SSI relied to its enormous benefit on Disney's creativity in developing and marketing the Pooh Works. In fact, the essential premise of SSI's state court claims was that it had transferred all its rights to Disney and was not being adequately renumerated under its (wildly exaggerated) reading of the 1983 Agreement's royalty provisions for the works Disney created.

Aside from the practical history, SSI's standing to pursue infringement claims is independently defeated by the express granting language in the 1983 Agreement. Because the meaning of the Agreement is plain, this is a purely legal

[6] For example, SSI stated in discovery responses, verified by its principal, Pati Slesinger, that "Slesinger exercised and exploited all of Slesinger's rights by licensing to Disney in 1961 all of the rights, including all 'further rights' which Slesinger held, including rights to future means of commercial exploitation which might become viable in the future." (Mot. at 26:15-22 (quoting Ex. 23 at 5:28-6:4).) In other filings, SSI acknowledged that the "1983 Agreement . . . confirms that SSI granted those rights to Disney." (*Id.* at 26:7-13 (quoting Ex. 59 at 8:16-21).)

question ripe for the Court's determination. *Travelers Cas. & Sur. Co. v. Am. Intern. Surplus Lines Ins. Co.*, 465 F. Supp. 2d 1005, 1012 (S.D. Cal. 2006) (interpretation of an unambiguous contract is properly decided on summary judgment).[7] This issue is especially ripe here, where the interpretation Disney asserts is not only fully supported by the contract language and the practical history, but also by SSI's repeated and binding state court representations. SSI has no right to proceed toward trial on the theory that what it spent years insisting was "white" is actually "black."

A. <u>SSI Identifies No Reason Judicial Estoppel Should Not Apply</u>.

SSI does not contest Disney's showing that SSI achieved litigation advantages in state court by representing it had transferred all its Pooh rights to Disney by the 1983 Agreement. Instead, SSI says that successes like defeating Disney's summary adjudication motion are immaterial because the only "success" that counts for judicial estoppel purposes is a judgment in favor of the party to be estopped. (Opp. at 35:14-16.) SSI cites no authority for this proposition, and this is not the law.[8]

SSI also failed to address the Ninth Circuit authority that district courts may apply judicial estoppel "not only to prevent a party from gaining an advantage by taking inconsistent positions, but also because of general consideration[s] of the orderly administration of justice and regard for the dignity of judicial proceedings, and to protect against a litigant playing fast and loose with the courts." *Hamilton*,

---

[7] SSI's claim, addressed in Section IV(F), below, that the 1983 Agreement was not an assignment, but a license, has no bearing on the question of whether SSI has standing to bring infringement claims. Even if Disney were a licensee Disney had SSI's consent to make use of all SSI's rights to the Pooh Works. *See Essex Music, Inc. v. ABKCO Music & Records, Inc.*, 743 F. Supp. 237, 242 (S.D.N.Y. 1990) (only an exclusive licensee, and not the licensor, has standing to sue for later-occurring infringements of the licensed rights).

[8] *See, e.g., Hamilton v. State Farm Fire & Cas. Co.*, 270 F.3d 778, 782 (9th Cir. 2001); *see also* Mot. at 27:3-28:2, identifying further authority that many forms of litigation advantage trigger the application of judicial estoppel. SSI does not respond to those cases in its Opposition.

270 F.3d at 782 (citation omitted); *see also Wagner v. Prof'l Eng'rs in Cal. Gov't*, 354 F.3d 1036, 1044 (9th Cir. 2004) (judicial estoppel should be invoked "to protect the integrity of the judicial process by preventing a litigant from playing fast and loose with the courts.") (citation omitted); *Allied Tube & Conduit Corp. v. John Maneely Co.*, 125 F. Supp. 2d 987, 999 (D. Ariz. 2000) (the Ninth Circuit has "continually applied both approaches and arrived at the same result."); *Arriaga v. Cross Country Bank*, 163 F. Supp. 2d 1189, 1202 (S.D. Cal. 2001) (overruled on other grounds).[9]

If SSI were permitted to reverse its position regarding the 1983 Agreement, it would be relieved of any responsibility for its many representations to the state court and to Disney that helped fuel more than a decade of protracted litigation; indeed, it would be relieved of responsibility for perjury. This exhibits the very lack of respect for the integrity of the judicial system that led to the termination of its state court case. *See Hamilton*, 270 F.3d at 782 (judicial estoppel should be applied to protect the "orderly administration of justice and regard for the dignity of judicial proceedings") (citation omitted); *Kale v. Obuchowski*, 985 F.2d 360, 361-62 (7th Cir. 1993) (characterizing prior inconsistent statements of position as perjury); *Astor Chauffeured Limousine Co. v. Runnfeldt Inv. Corp.*, 910 F.2d 1540, 1548 (7th Cir. 1990) (judicial estoppel particularly appropriate where incompatible

---

[9] SSI relies on *New Hampshire v. Maine*, 532 U.S. 742 (2001), and *United Steelworkers of Am. v. Ret. Income Plan, etc.*, 512 F.3d 555, 563 (9th Cir. 2008), in arguing that success in the prior action is a prerequisite for applying judicial estoppel. (Opp. at 33:24-27.) That is incorrect for both cases. In *New Hampshire*, the Supreme Court specifically instructed that it was *not* establishing "inflexible prerequisites or an exhaustive formula for determining the applicability of judicial estoppel. Additional considerations may inform the doctrine's application in specific factual contexts." 532 U.S. at 751. The Ninth Circuit in *United Steelworkers* reiterated those same "generally consider[ed]" non-exhaustive factors. 512 F.3d at 563. Neither decision states that a finding of litigation advantage in the prior proceeding is a necessary element for judicial estoppel. The Ninth Circuit has held to the contrary. *See, e.g.*, *Hamilton*, 270 F.3d at 782-83; *Whaley v. Belleque*, 2008 WL 763774, *4 (9th Cir. Mar. 24, 2008); *APL Co. Pte. Ltd. v. UK Aerosols Ltd., Inc.*, 2007 WL 3225469, *6 (N.D. Cal. Oct. 30, 2007); *Bischoff v. DirecTV, Inc.*, 180 F. Supp. 2d 1097, 1114 (C.D. Cal. 2002); *United States v. Gabel*, 2002 U.S. Dist. LEXIS 11533, *35-37 (N.D. Cal. Mar. 25, 2002).

statements were made in two different cases, since "*[i]nconsistent positions in different suits are much harder to justify" than inconsistent pleadings within the same suit*) (emphasis added); *Siegel v. Time Warner, Inc.*, 496 F. Supp. 2d 1111, 1122-23 (C.D. Cal. 2007).

SSI's other arguments against judicial estoppel are equally unsupportable. First, SSI says its state court assertions do not matter because they "pertain to specific disputes, not general statements." (Opp. at 35:6.) SSI cites no authority supporting this meaningless distinction. Second, SSI says the statements to be estopped must be integral to the claim. (*Id.* at 35:4-6) This is not the law. *Siegel*, 496 F. Supp. 2d at 1123 (clarifying that a party may take an inconsistent position only where the previous position would not have had an impact on the prior litigation); *New Hampshire*, 532 U.S. at 750 (explaining that a party may not change positions in any manner that "would create the perception that either the first or the second court was misled") (quotations omitted). In any event, SSI's representations regarding its transfer of all rights *were* central to its position in the state case—it was *the* basis of SSI's broad royalty claims. Third, SSI says it cannot be held to a position in the state case that was contested by Disney. (Opp. at 35:12-13.) SSI cites no authority for this position. Nor does SSI provide evidence that Disney contended in state court that the 1983 Agreement did not result in a transfer of all of SSI's rights.

B. <u>The Language of the 1983 Agreement Defeats SSI's Interpretation</u>.

SSI's opposition reprints several long, single-spaced sections of the 1983 Agreement, presumably to suggest daunting complexity and ambiguity, but—even apart from SSI's many state court representations—the parties' intent regarding the scope of the transfer turns on a two-word phrase in that contract, as SSI itself ultimately acknowledges. (Opp. at 26.) That phrase is "further rights." In Paragraph 5 of the 1983 Agreement, SSI warrants that it has the rights it purports to convey, specifically broadcast rights and "various *further rights* in and to said 'work.'" Paragraphs 7 and 8 grant to Disney the broadcast rights and everything else: "*all* of the *further rights* in and to said 'work' which are set forth in Paragraph [5]." (Emphases added.)[10]

SSI does not dispute that if, as Disney contends, these paragraphs conveyed all of SSI's rights, it has no standing to sue for infringement. Instead, SSI attempts to manufacture standing by contending for the first time in the parties' years of dealings and litigation that only some of its rights were conveyed to Disney. It would do violence to the plain meaning of a contract to imply a limitation where none is stated.[11] Therefore, "[c]ourts have been careful not to rewrite contracts for parties by inserting an implied provision, unless, from the language employed, such implied provision is necessary to carry out the intention of the parties." *Foley v. Euless*, 214 Cal. 506, 511 (1931) (citation omitted).[12]

SSI further argues that if the Agreement had meant what Disney says, it could have simply provided that "Disney receives all rights Slesinger owned." (Opp. at 27.) But it can always be said that different, or fewer, words might have been used to convey a particular meaning. As a matter of law, the words of the 1983 Agreement and the rules of contract interpretation do not allow SSI's reading that it only conveyed some of its rights. Not only are "all of the further rights"

[10] The erroneous reference to Paragraph 6, instead of 5, was corrected by a side letter between the parties. (Ex. 3.)

[11] SSI does not attempt to explain how the open-ended phrase "various further rights" can be read to mean "only some rights." It simply makes the *ipse dixit* pronouncement that the "further rights" are "more circumscribed than Disney claims" and are "narrow." (Opp. at 26.) But "various" and "further" are words of inclusiveness, not restriction. The dictionary defines "various" as "of an infinite number greater than one" and "further" as "in addition." (Goldstein Decl. ¶ 5, Ex. 89.) SSI cannot provide any reason why these words should not be given their ordinary meaning, namely that all of SSI's rights to the Pooh works are provided to Disney. California Civil Code § 1644 requires that the "words of a contract are to be understood in their ordinary and popular sense."

[12] Assume the following contract: "I agree to sell you my various automobiles at market rates." SSI's argument is equivalent to that of the seller of those rights who has a change of heart and claims the contract means—though it does not say—"some of my various automobiles." That would be at odds with common English usage, in which open-ended words like "various" have "infinite" reach unless expressly limited. (Goldstein Decl. ¶ 6, Ex. 90.)

expressly granted to Disney, but the Agreement nowhere identifies any rights SSI retained. If a contract does not specify items excluded from its broad terms, the only reasonable conclusion possible is that the parties did not intend any exclusion, and it would be improper for a party or a court to add one by implication. *See Alameda County v. S. Pac. Co.*, 55 Cal. 2d 479, 488 (1961) ("Where parties have entered into written engagements which industriously express the obligations which each is to assume, the courts should be reluctant to enlarge them by implication as to important matters.") (citation omitted).

Because neither SSI nor the Agreement identifies the separate rights supposedly retained and reserved, SSI cannot and does not state what rights it owns. SSI is therefore incapable of establishing that Disney infringed rights it retained or reserved, an essential element to any infringement claim. *Donchez v. Coors Brewing Co.*, 392 F. 3d 1211, 1219 (10th Cir. 2004) (requiring that claimant establish a "protectable interest in its mark" to survive summary judgment).

Despite the absence of language supporting its interpretation, SSI suggests the Agreement is ambiguous and there are material issues of fact regarding its construction. (Opp. at 26:13-25.) One of the most powerful canons of contractual interpretation disposes of that contention. SSI's many statements in state court regarding the 1983 Agreement's intent were made at a time when, though the parties were in conflict on many issues, they were not at odds regarding either the scope of transfer or whether Disney had infringed some claimed SSI right. Accordingly, SSI's statements that the parties intended by the 1983 Agreement to transfer all Pooh rights should be given great weight in this Court's interpretation of the Agreement:

> [A] construction given [a contract] by the acts and conduct of the parties with knowledge of its terms, before any controversy has arisen as to its meaning, is entitled to great weight, and will, when reasonable, be adopted and enforced by the court . . . . The conduct of

the parties after execution of the contract . . . affords the most reliable evidence of the parties' intentions.

Employers Reinsurance Co. v. Super. Ct., 161 Cal. App. 4th 906, 921 (2008) (citations omitted); *see also Universal Sales Corp. v. Cal. Press Mfg. Co.*, 20 Cal. 2d 751, 761-62 (1942).

C. <u>SSI's Claim that Disney Was Not Granted Derivative Rights Is Contradicted by the 1983 Agreement</u>.

In another attempt to establish standing, SSI asserts that under the 1983 Agreement, only SSI "has the right to create derivative works of the characters," and "Disney does not." (Opp. at 28.) This is preposterous. It would mean Disney received virtually no rights under the Agreement. It would mean that for decades, Disney has been flagrantly and openly infringing SSI's rights, as virtually every Pooh product is a derivative work. It would mean that for 16 years, SSI waged litigation war against Disney, going so far as to break the law to obtain advantages, yet until its recent counterclaims, never seeing fit to bring a claim for infringement.

The 1983 Agreement clearly conveyed to Disney the right to make and use derivative works. That was the very purpose of the Agreement.[13] Paragraph 5 states that the "further rights" granted are the "exclusive right to use, or license the use of, the characters and illustrations from . . . [the Pooh Works] . . . in connection with . . . merchandise." The transformation of line drawings to three dimensional products is by its very nature the creation of derivative works. Moreover, Paragraph 7 grants Disney the right, *inter alia*, "to project, exhibit and broadcast by radio and television live shows based on said 'work.'" The Copyright Act defines

[13] Although not determinative here, SSI conflates Disney's right to create derivative works based on the Pooh Works and Disney's right to use SSI's derivative Pooh Works. Even if there were SSI derivative works, and even if the 1983 Agreement had not conveyed those derivative works to Disney, that would not affect Disney's right to create new derivatives of the Pooh Works, a circumstance that defeats its infringement claims.

the products of those authorized activities as "derivative."[14]

Paragraph 10(a) clarifies the nature of Disney's rights with an illustrative list of contemplated derivative items "which employ or use or which are taken from or which are based upon any of the characters, material or titles of the work or any part thereof, and/or which employ or use or are taken from or based upon any of the characters, material or title(s) of any of Disney's motion picture, television or other versions, adaptations or treatment of the work or any part thereof." This means that Disney obtained the right to create works derivative of the original Pooh Works or of any "material" obtained from SSI and used in any Disney "version, adaptations or treatment of the work" during the 22 years since the parties' 1961 Agreement.

SSI's prime example of its supposed creation of a derivative work it claims Disney has no right to use is "a colorized red-shirted bear." (Opp. at 28:22.) In the body of SSI's brief, to support its claim that Disney is—without right or license—infringing its derivative works, SSI rails that "Slesinger created the red shirted bear [and] [n]owhere does Slesinger ***ever*** grant any right to Disney that Slesinger owned independent of Milne." (Opp. at 29:2-4 (emphasis original).) Leave aside the question of whether a red shirt is a copyrightable expression.[15] Leave aside that SSI does not cite, in its counterclaims or its Opposition, a single Pooh-related copyright registered in its name or provide any evidence that it has the rights to any derivative work.[16] The reason SSI pocketed royalties for a half-century without a word of objection until now is that SSI recognizes Disney's right to sell a red-shirted bear.

---

[14] *See* 17 U.S.C. § 101 ("A 'derivative work' is a work based upon one or more preexisting works, such as a . . . dramatization, fictionalization, motion picture version, sound recording, art reproduction . . . or any other form in which a work may be recast, transformed, or adapted.").

[15] "[M]ere variations of … coloring" are not subject to copyright protection. 38 C.F.R. Section 202.1(a).

[16] SSI says in its Opposition that "Slesinger utilized these rights from 1930 to the 1960's, creating new and different versions of Pooh and his friends" (Opp. at 28:19-20), but submits no admissible evidence supporting that position. If it were correct, SSI would have such evidence in its possession—which it does not. Instead, it relies on hearsay in a 1935 *New Yorker* article. (Id. at 28:20-21.)

In a footnote, SSI undermines its own argument by admitting that Disney's half-century of sales "might mean that Disney has an implied license to some" of Slesinger's claimed derivative rights, including the "red-shirted bear." (Opp. at 29 n.15 (citing *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 558-59 n.6-7 (9th Cir. 1990), for the proposition that implied licenses may be found in such situations).)

D. <u>Differences Between the Grant from the Pooh Trust to SSI and the Grant from SSI to Disney Are Irrelevant</u>.

In another failed attempt to show it retained rights, SSI points to differences between the language of the Pooh Properties Trust's grant to SSI in Paragraph 4 of the 1983 Agreement, and that of SSI's grant to Disney in Paragraphs 5, 7, and 8. (Opp. at 25:8-26.) But identical language would not have been appropriate. As between the Trust and SSI, the 1983 Agreement was a simultaneous revocation and re-grant of previously transferred rights. Consequently, Paragraph 4 did not need to do more than incorporate by reference the grants described in the 1930 Agreement and its amendments. The grant from SSI to Disney, in contrast, was not a mere reiteration of their 1961 Agreement. As a result, a full articulation of the particulars was necessary.[17]

E. <u>SSI's Pre-Existing Grants to Third Parties Have No Bearing on Whether It Granted All It Had in 1983 to Disney</u>.

Disney noted that SSI's 1983 transfer was "subject to certain [pre-existing] licenses with third parties that are not at issue in this case." (Mot. at 24:4-5.) SSI tries in vain to find standing to sue from that historical fact. It argues that if a third party still had Pooh rights, Disney could not have obtained all of SSI's rights, *so SSI must still have rights, too.* (Opp. at 23-24.) That does not follow. To establish

---

[17] SSI argues that any ambiguities arising from the different language in the grants should be construed against Disney. This is wrong, because the 1983 Agreement is unambiguous on the only point of significance. In addition, interpretation against the drafter is a rule of last resort. *See Dunne & Gaston v. Keltner*, 50 Cal. App. 3d 560, 563 n.3 (1975) ("[W]hen an agreement is arrived at by negotiating, the 'preparer' principle should not be applied against either party.").

that SSI relinquished all its ownership interests in the *1983* Agreement, Disney need not establish that it obtained all rights SSI *ever* had, only that Disney obtained all rights SSI had to give in 1983. The language of the contract so provides.

Equally unfounded is SSI's related argument: if *before 1983* SSI could license a third party to make phonograph records, it could do the same *after 1983*, which means it "continued to have the right to grant rights to use Pooh to third parties" and thus had a sufficient ownership interest to pursue infringement claims. (Opp. at 24:9-10.) This overlooks that SSI's pre-1983 relationship with Disney was governed by the 1961 Agreement, which did authorize SSI to make short-term non-exclusive grants of certain rights to third parties. (*See* Ex. 1 ¶ 8 ("the seller may continue to enter into and extend license agreements for periods of not more than two years, in the same manner as heretofore.") In 1983, Disney did not agree to the continuation of that right, and the 1983 Agreement has no such provision.

SSI's attempt to imply a rights reservation from unrelated events gets no support from its citations to the so-called April 1, 1983 side letter. The pertinent section of that letter merely corrects a tangential inaccuracy in a recital in the 1983 Agreement. As executed, the Agreement noted that, prior to 1961, SSI had entered into non-exclusive phonograph licenses. (Ex. 1 ¶ 8.) The side letter simply notes that SSI also did so after 1961. (Ex. 3.) It does not say that SSI could continue to do so after entering into the 1983 Agreement, and SSI's new claim in 2008 that the letter indicates it "retained a non-exclusive right" is wrong. (Opp. at 24:8.)[18]

[18] SSI attempts to pass off several other documents as *sub rosa* amendments to the 1983 Agreement. (Opp. at 27:7-26.) None is. SSI Ex. 18, a 1982 letter between counsel for Disney, SSI, and the Pooh Trust regarding settlement, is irrelevant. Any uncertainty by Disney in 1982 about whether SSI or the Trust owned certain Pooh rights has no bearing on the issue of whether SSI gave Disney everything it had the next year. SSI Ex. 21, a 1996 Agreement between Disney and the Trust, does not, as SSI claims, indicate that Disney was seeking additional rights from *SSI*. Instead, its stated purpose was to "confirm [Milne and Disney's] agreement" regarding the use of the Pooh Works for Club Disney. (SSI Ex. 21 at 1.) SSI Exs. 22 and 23, 1997 correspondence between Disney and the Trust, address a Disney offer made in a belief that *the Trust* held additional rights that Disney wanted to acquire. SSI Ex. 25, an Amendment to a Disney/Trust contract, modifies only the 1961 Agreement between Disney and Milne, but has nothing to

F. The 1983 Agreement is an Assignment, and SSI Identifies No Material Issue of Fact to the Contrary.

Offering not a shred of evidence that it conducted itself as a trademark licensor or that it ever protested or objected to any of Disney's hundreds of trademark registrations *all* of which were publicly filed in Disney's name over nearly the last 50 years, SSI contends for the first time that the Agreements at issue are trademark licenses. It asks this Court to take the extraordinary step of ordering the PTO to replace Disney with SSI as the record owner of decades of trademark registrations publicly filed in Disney's name. But SSI cannot run away from the plain and unambiguous language of the agreements any more than it can from the almost 50 years of history that reinforces that plain meaning. Both agreements recite that SSI "*assigns, grants, and sets over unto*" Disney the rights conveyed. (Ex. 1 ¶¶ 4-5; Ex. 2 ¶¶ 7-8.) That language alone is dispositive of SSI's claim. SSI is not entitled to manufacture a claim inconsistent with the parties' agreements and the undisputed history of their dealings simply because its other claims are precluded and it wants some claim—*any* claim—to litigate against Disney.[19]

Disney detailed the many characteristics of the 1983 Agreement consistent with an assignment and inconsistent with a license. (Mot. at 30:3-31:5.) When the totality of such factors show the Agreement to be "a transfer by the assignor of all rights in the property assigned to the assignee . . . [which] effects an absolute and irrevocable transfer of ownership," then the Agreement constitutes an assignment. *Artoc Bank & Trust, Ltd. v. Apex Oil Co.*, 975 F.2d 1365, 1369 (8th Cir. 1992).

SSI contests almost none of the many factors cited by Disney that point to

---

do with SSI's retention of rights. SSI Ex. 30, a 1999 letter from the Trust's counsel to Disney, can have no bearing on the intent of SSI and Disney in 1983. SSI Ex. 34, the 2001 "Buyout" agreement between Disney and the Milne and Shepard interests, is irrelevant. The language that SSI relies on only states that *no* representations are being made regarding SSI's rights.

[19] Because of the narrow scope of the motion on this issue, Disney need not address the many other reasons, factual and legal, that defeat SSI's claim to trademark rights.

assignment. Rather, it tries to balance the list with other factors that it argues indicate a license. None do, and summary judgment on this issue is warranted.

First, SSI claims that because the Agreement does not expressly give Disney the right to sue infringers, it is more like a license than an assignment. But the law is clear that the right to sue does not need to be expressly granted; it transfers automatically with the intellectual property interests from which it arises. *See, e.g.*, *Silvers v. Sony Pictures Entm't*, 402 F.3d 881, 885 (9th Cir. 2005) (17 U.S.C. § 501(b) grants right to sue for copyright infringement to the legal or beneficial owner); *ICEE Distribs., Inc. v. J&J Snack Foods Corp.*, 325 F.3d 586, 593 (5th Cir. 2003) (trademark assignee "acquires . . . all the rights and priorities of the assignor") (citation omitted).

Second, SSI claims that the absence of an express transfer in the 1983 Agreement of the good will associated with the Pooh trademarks suggests license, not assignment. Good will is the *sine qua non* of trademark ownership and transfers along with ownership, whether or not specifically called out. The very portion of the McCarthy trademark treatise cited by SSI establishes that point. *See* 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS § 18.2 (2008) (trademark "cannot be sold or assigned apart from the goodwill it symbolizes"); *id.* § 18.7; *id.* § 18.37 ("Good will and trademarks are transferred even though not specifically mentioned in the contract of sale."); *see also ICEE*, 325 F.3d at 593.

Third, SSI says that because assignments are absolute and irrevocable transfers of ownership, the presence of a reacquisition provision in the 1983 Agreement indicates that the rights were only licensed. This theory fails because Disney can unilaterally prevent reacquisition by making small periodic payments. Paragraph 11 of the 1983 Agreement only permits SSI and the Pooh Properties Trustees to "reacquire" the "further" rights if Disney does not make those minimum payments. The Agreement's use of the term "reacquire," and Disney's control of the circumstances by which SSI could reacquire the transferred rights, confirm that the Agreement is an assignment of SSI's rights to Disney. Such reacquisition provisions are consistent with assignments. *See, e.g.*, *Graham v .Comm'r*, 26 T.C. 730, 735, 740 (T.C. 1956) (contract transferring patent rights was an assignment, although agreement provided for automatic reversion of "ownership of all patents and licenses . . . [i]n the event of termination of this agreement before expiration").

Fourth, SSI argues a February 7, 1983 letter (SSI Ex. 17) from Disney's counsel suggests the 1983 Agreement is a license because of a reference to Disney as a "user." (Opp. at 32:10-16.) But the letter pre-dates the integrated 1983 Agreement by several months and concerns copyrights, not trademarks. Moreover, SSI argues against itself when it points out that assessing whether a transfer of trademark is an assignment or a license "does not depend upon the name." (*Id.* at 30:24.) SSI cannot win its own argument: the operative document of transfer, the 1983 Agreement, twice uses the term "assign" and never uses the term "license."

Fifth, SSI misconstrues another unrelated document, the 2001 Buyout Agreement with the Milne interests. (SSI Ex. 38.) SSI claims that this contract evidences that Disney "concluded that its agreement with Slesinger was indeed a license." (Opp. at 32:8-9.) This portion of the Buyout Agreement hardly represents a conclusion by Disney regarding whether the *1983* Agreement effectuated the transfer of trademark rights. All it says is that "Pursuant to an agreement dated June 14, *1961*, [between SSI and Disney, SSI] licensed the Slesinger Rights to Walt Disney Productions." (SSI Ex. 38 at 1, clause E (emphasis added).)[20]

V. SSI'S "ORCHESTRATION" CLAIMS ARE NOT VIABLE.

A. <u>Copyright and Implied Covenant</u>.

SSI states "it is copyright infringement to unlawfully attempt to deprive a

[20] SSI also does not dispute the general rule that failure to provide for quality control denotes assignment, not license. SSI now says its failure to do so under the 1983 Agreement should not be held against it because it relied on Disney's reputation for quality control. (Opp. at 32-33.) SSI submits no supporting evidence, but even if this were true, that would not indicate that the parties intended a license. The critical point is that the totality of the factors dictates that the 1983 Agreement is an assignment.

copyright owner of its rights." (Opp. at 36:17-18.) It is not. For one thing, as discussed above, SSI has no ownership interest in the copyrights and thus has no standing to bring an infringement claim. For another, the case it cites for its theory that attempting to deprive a party of a copyright interest constitutes infringement, *Jett v. Ficara*, 2007 U.S. Dist. LEXIS 96398, *16-17 (S.D.N.Y. July 31, 2007), does not support SSI's proposition, nor is Disney aware of any such support.

Standing to sue for copyright infringement is conferred under the Copyright Act only when the owner's exclusive rights are violated. A failed attempt to terminate, which does not involve copying (or authorizing another to copy) protected works, is not a violation of these exclusive rights. *See* 17 U.S.C. §§ 106-22, 501(a); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001) (prima facie case of copyright infringement requires "that the alleged infringers violate at least one exclusive right . . . under 17 U.S.C. § 106.").

As to its implied covenant claim, SSI argues Disney's alleged scheme constituted a breach of an implied covenant because Disney intended to deprive SSI of its contractual rights. (Opp. at 37.) An implied covenant of good faith and fair dealing claim, however, must be grounded in an express contractual obligation. *Guz v. Bechtel Nat'l, Inc.*, 24 Cal. 4th 317, 349-350 (2000); *Racine & Laramie v. Dep't of Parks & Rec.*, 11 Cal. App. 4th 1026, 1032 (1992).[21] Here, the 1983 Agreement contains no express provision obligating Disney to do, or not do, anything concerning what were then Christopher Milne's copyright termination

[21] The decisions cited by SSI, (Opp. at 37), are in accord with that principle. In each, there was an express provision serving as the basis for the implied covenant claim. *Harm v. Frasher*, 181 Cal. App. 2d 405, 416-17 (1960) (implied covenant breached by party's refusal to complete sale where contract included both promise to sell and agreement that each party's performance was contingent on the other's performance); *Ninety Nine Invs., Ltd. v. Overseas Courier Serv., etc.*, 113 Cal. App. 4th 1118, 1131-32 (2004) (implied covenant "that neither party would frustrate the other party's right to receive the benefits of the contract" breached by party who made timely performance by other party impossible, then used failure to timely perform as justification for exercising cancellation provision); *Brawley v. Crosby Research Found., Inc.*, 73 Cal. App. 2d 103, 112 (1946) (implied covenant to use "best efforts to develop, exploit, produce and make sales" of rotary pump found where contract required that appellant manufacture and sell pump).

rights, much less concerning rights that did not exist until 15 years later, and even then belonged to non-parties to the 1983 Agreement. (*See also* Mot. at 32:4-11.)

B. <u>Business & Professions Code Section 17200</u>.

To support its Section 17200 claim, SSI argues that Disney acted "unfairly" by attempting to "steal" SSI's royalty stream, in violation of the 1983 Agreement. (Opp. at 39.) SSI wrongly assumes that Disney's conduct breached an obligation under the 1983 Agreement. Nothing in that contract proscribed Disney from "orchestrating" terminations. SSI argues "unlawful" conduct by Disney on the grounds that inducing termination was copyright infringement and/or that the Reversion Agreement was a forbidden grant under 17 U.S.C. § 304(c)(6)(D). Section 304(c)(6)(D) concerns only the enforceability of a contract, and not lawfulness of conduct. (Mot. at 32-33.) Conduct, as here, that is "neither required nor proscribed by law does not constitute 'unlawful' business activity under the unfair competition law." 61 CAL. JUR. 3D UNFAIR COMPETITION § 3 (2008).

SSI's claim of "fraudulent" conduct similarly fails for want of a predicate fraudulent act. SSI's pleading identifies only the "orchestration" theory as the basis for its Section 17200 counterclaim. That circular theory cannot support a claim, for the reasons addressed above. SSI's Opposition also asserts for the first time that public statements about the validity of the termination notices and SSI's supposed contributions to developing Pooh were wrong and support its Section 17200 claim. (Opp. at 39:25-40:2) But particularly after having already amended its counterclaims four times, SSI cannot now assert that new theory in an effort to stave off summary judgment. *Tenet Healthsystem Desert, Inc. v. Fortis Ins. Co., Inc.*, 520 F. Supp. 2d 1184, 1196 (C.D. Cal. 2007) (party "cannot raise a new theory in opposition to summary judgment."); *see also Coleman v. Quaker Oats Co.*, 232 F.3d 1271, 1292 (9th Cir. 2000) ("[a]dding a new theory of liability at the summary judgment stage would prejudice the defendant who faces different burdens and defenses under this second theory of liability . . . plaintiff should have moved to amend his pleadings [instead].") (citation omitted). Moreover, SSI cannot show that as a result of those statements it "suffered injury in fact *and* has lost money or property." CAL. BUS. & PROF. CODE § 17204 (emphasis added); *see also id.* § 17535; *Walker v. USAA Cas. Ins. Co.*, 474 F. Supp. 2d 1168, 1172 (E.D. Cal. 2007). SSI has no ownership interest in the Pooh Works and is not transacting with the public. Its financial interest in the Pooh Works is based solely on royalties received from Disney based on Disney's efforts.[22]

Finally, SSI's Injunctive Relief claim is not a claim at all. *See McDowell v. Watson*, 59 Cal. App. 4th 1155, 1159 (1997) ("Injunctive relief is a remedy and not, in itself, a cause of action.").

VI. CONCLUSION.

History cannot be rewritten. SSI is not exempted from the consequences of its state court actions and statements. The demands for justice and fairness that compelled the dismissal of SSI's first lawsuit fully apply here and preclude SSI from relitigating those same claims and allegations. Further, the principles underlying judicial estoppel prohibit SSI from "gaming the system" by denying facts it long acknowledged were true. Disney respectfully requests the Court grant its motion for summary judgment.

Dated: May 27, 2008

Respectfully submitted,

O'MELVENY & MYERS LLP

By: ____________________
Daniel M. Petrocelli
Attorneys for Counterclaim-Defendants Disney Enterprises, Inc., The Walt Disney Company, and Walt Disney Productions

---

[22] SSI argues that "law of the case" doctrine saves its unfair competition claim, (Opp. at 36 n.18.), but as confirmed by the very authority SSI cites: "[T]he law of the case doctrine is not a shackle without a key. As long as a district court retains jurisdiction over a case, it has inherent power to reconsider and modify an interlocutory order for sufficient cause." *Johnson v. Couturier*, 2007 WL 3151802, *3 (E.D. Cal. Oct. 26, 2007) (citation omitted).

EXHIBIT D

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	2:02-cv-08508-FMC-PLAx	Date	June 3, 2008
Title	Clare Milne, et al v. Stephen Slesinger		

Present: The Honorable	FLORENCE-MARIE COOPER

Alicia Mamer	Not Reported	N/A
Deputy Clerk	Court Reporter / Recorder	Tape No.

Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
Not present	Not present

Proceedings: ORDER RE: DISNEY'S MOTION FOR SUMMARY JUDGMENT; ORDER FOR SUPPLEMENTAL BRIEFING (In Chambers)

I. Summary Judgment:

At the most recent status conference, conducted on March 3, 2008, the Court established a briefing schedule on what Counter-Defendant Disney represented would be a "motion to dismiss" addressing the effect of the September 25, 2007 decision of the California Court of Appeal on the claims at issue in this case. On April 21, 2008, Disney filed a Motion for Summary Judgment or, in the Alternative, for Summary Adjudication of Counter-Claimant Stephen Slesinger, Inc.'s Counterclaims (docket no. 396). The motion is directed, in part, to the potential res judicata and/or collateral estoppel effect of the state court decision on SSI's Fourth, Fifth, Sixth and Seventh Counterclaims for breach of contract, breach of the implied covenant of good faith and fair dealing, fraud, and declaratory relief re: the 1983 agreement. The remainder of the motion seeks summary judgment with respect to the First, Second, Third, Fourth, Fifth and Twelfth Counterclaims, on the grounds that they are barred by judicial estoppel or are otherwise unsupported by evidence.

To the extent that Disney's motion contemplates rulings by the Court on issues other than the preclusive effect of the state court judgment, it is premature. At this juncture, the Court will only consider and entertain argument on the application of the doctrines of res judicata and collateral estoppel to SSI's remaining counterclaims. Accordingly, insofar as it seeks relief beyond the application of these preclusion doctrines, Disney's motion for summary judgment is DENIED, without prejudice.

II. Preclusive Effect of State Court Judgment:

Upon consideration of the parties' arguments regarding the preclusive effect of the state court judgment on the Fourth, Fifth, Sixth and Seventh Counterclaims, it appears to the Court that all of SSI's claims regarding its entitlement to royalties under the 1983 Agreement are barred. However, the relevant inquiry is *not* whether the September 25, 2007 decision of the California Court of Appeal upholding the trial court's imposition of terminating sanctions constituted a "final judgment on the merits" of those contract or fraud claims that are coextensive with those asserted here. Rather, the proper question to be

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	2:02-cv-08508-FMC-PLAx	Date	June 3, 2008
Title	Clare Milne, et al v. Stephen Slesinger		

addressed is whether the state court's conclusion regarding the irrevocability of the "taint" caused by SSI's misconduct requires dismissal of any or all claims in this action. *See, e.g., Slesinger v. Disney*, 155 Cal. App. 4th 736, 774 (2007) ("[N]o speculation exists in the court's determination that SSI's principals had gleaned information from the documents that no court order could dissipate.").

While the merits of the contract and fraud claims were, arguably, not "actually litigated" in the state court matter, the issue of the appropriate consequences of SSI's litigation misconduct obviously was, resulting in the trial court's 28-page statement of decision and extensive factual and legal findings. It is to these findings (and the evidence which underlies them) that the Court believes it should look when applying the preclusion doctrines.

Accordingly, the Court hereby orders the parties to file supplemental briefs on the issue of how the stolen documents and knowledge acquired by SSI's principals in the state court action affect the ongoing validity of the claims remaining in this case. The parties shall make explicit reference to, and furnish the Court with copies of, all relevant documents. The parties should also brief the question of why imposition of a similar "terminating sanction" is not compelled in this case, either by the Court *sua sponte* or upon a motion therefor.

The briefing schedule shall be as follows:

Disney's supplemental opening brief:	June 23, 2008
SSI's supplemental opposition:	July 14, 2008
Disney's supplemental reply:	July 28, 2008
Hearing on motion:	August 25, 2008 at 10:00 a.m.

: N/A

Initials of Preparer AM

EXHIBIT E

DANIEL M. PETROCELLI (S.B. #97802)
dpetrocelli@omm.com
ALAN RADER (S.B. #45789)
arader@omm.com
VICTOR JIH (S.B. #186515)
vjih@omm.com
JUSTIN M. GOLDSTEIN (S.B. #198858)
jgoldstein@omm.com
O'MELVENY & MYERS LLP
1999 Avenue of the Stars, 7th Floor
Los Angeles, CA 90067-6035
Telephone: (310) 553-6700
Facsimile: (310) 246-6779

Attorneys for Counter-Defendants
DISNEY ENTERPRISES, INC., THE WALT
DISNEY COMPANY, and WALT DISNEY
PRODUCTIONS

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

CLARE MILNE, an individual, by and through MICHAEL JOSEPH COYNE, her RECEIVER, and DISNEY ENTERPRISES, INC.

Plaintiffs,

v.

STEPHEN SLESINGER, INC.,

Defendant.

STEPHEN SLESINGER, INC.,

Counter-Claimant,

v.

DISNEY ENTERPRISES, INC.; THE WALT DISNEY COMPANY; and WALT DISNEY PRODUCTIONS,

Counter-Defendants.

Case No. CV-02-08508 FMC (PLAx)

COUNTER-DEFENDANTS DISNEY ENTERPRISES, INC., THE WALT DISNEY COMPANY, AND WALT DISNEY PRODUCTIONS' SUPPLEMENTAL OPENING BRIEF RE: PRECLUSION AND TERMINATING SANCTIONS

The Hon. Florence-Marie Cooper

Date: September 8, 2008
Time: 10:00 a.m.
Place: Courtroom 750

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF AUTHORITIES

CASES

TABLE OF AUTHORITIES
(continued)

I. INTRODUCTION.

The Court's June 3, 2008 Order for Supplemental Briefing instructs the parties to address two questions: how the state court's findings supporting its terminating sanction against SSI affect the validity of SSI's counterclaims and why a terminating sanction is not also compelled in this case. Disney submits the answers to both questions are free from doubt. The state court's extensive findings—and its determination that SSI "corrupt[ed] the litigation process" and "the contamination is incurable"—apply equally in this case to invalidate and bar all of SSI's counterclaims.

SSI's state claims were rooted in the parties' 1983 Agreement—its history, its formation, its meaning, its performance, and its ongoing viability. The same is true for every one of SSI's remaining counterclaims in this case. SSI's counterclaims seeking to expand its entitlement to royalties on uses of the Pooh Works depend entirely on the same skewed interpretation of the 1983 Agreement that SSI advanced in state court. SSI's federal infringement counterclaims likewise hinge on an interpretation of the 1983 Agreement by which SSI contends it retains an ownership interest in the Pooh Works.

It was to gain illegal advantages in advancing its contract interpretation theories that SSI stole documents from Disney desks and offices, altered documents, withheld evidence, lied to the state court, and more. The irremediable taint on SSI's claims compelled that court to conclude Disney could not receive a fair trial. That is equally true in this case. Nothing has changed but the courthouse.

Only dismissal will prevent prejudice to Disney and a further affront to the judicial system. State preclusion law authorizes dismissal, as already demonstrated in Disney's summary judgment motion. But a remedial dismissal is also authorized—and necessary—under this Court's inherent power to impose a terminating sanction *sua sponte*: when a party's "ability to prove their case has been inalterably prejudiced . . . terminating sanctions [are] the only effective recourse." *Columbia Pictures, Inc. v. Bunnell*, No. 2:06-CV-01093, 2007 WL 4877701, at *5 (C.D. Cal. Dec. 13, 2007).

II. THE STATE COURT'S FINDINGS REGARDING SSI'S MISCONDUCT HAVE PRECLUSIVE EFFECT.

Disney's moving papers established that the dismissal with prejudice of SSI's state court case is "on the merits" for preclusion purposes; as a result, res judicata bars SSI from relitigating here all claims it asserted or could have asserted in state court. *See, e.g.*, *Mycogen Corp. v. Monsanto Co.*, 28 Cal. 4th 888, 896 (2002); *Kahn v. Kahn*, 68 Cal. App. 3d 372, 383 (1977). At the Court's instruction, this supplemental brief focuses on the collateral estoppel effect and consequences of the state court's factual findings and determinations regarding SSI's misconduct. Disney first briefly confirms that California law gives those findings full preclusive effect. We then describe how those findings apply to SSI's remaining counterclaims.

A. <u>Collateral Estoppel Attaches to the State Court's Findings</u>.

California law provides that an issue "actually litigated" and "necessarily decided" in a prior action cannot be relitigated in subsequent actions. *Gottlieb v. Kest*, 141 Cal. App. 4th 110, 148-49 (2006); *Torrey Pines Bank v. Super. Ct.*, 216 Cal. App. 3d 813, 820-22 (1989).[1] This principle applies to any issue litigated in a prior proceeding, because when a court makes "a determination of the merits of an issue before the court, it constitutes a binding determination of that issue." *Shore v. Shore*, 43 Cal. 2d 677, 681 (1954) (collateral estoppel prevents relitigation of jurisdictional issue); *see also Sabek, Inc. v. Engelhard Corp.*, 65 Cal. App. 4th 992, 996-97 (1998) (same); *Azusa Land Reclamation Co. v. Main San Gabriel Basin Watermaster*, 52 Cal. App. 4th 1165, 1212-13 (1997) (collateral estoppel attaches to ruling on exhaustion of administrative remedies).

---

[1] Federal courts look to state law to determine the preclusive effect of state court rulings. *Kay v. City of Rancho Palos Verdes*, 504 F.3d 803 (9th Cir. 2007).

In the state case, SSI's illicit actions and their consequences were "actually litigated" through comprehensive discovery, exhaustive briefing, and a five-day evidentiary hearing, and were "necessarily decided" in the trial court's detailed 28-page terminating sanctions order.[2] Those findings cannot be disputed by SSI and are entitled to full preclusive effect. *See Migra v. Warren City Sch. Dist. Bd. of Educ.*, 465 U.S. 75, 81 (1984) (Full Faith and Credit Clause requires federal courts to give state rulings same preclusive effect as they would be given under state law).

B. <u>Like SSI's State Claims, SSI's Counterclaims All Derive from the 1983 Agreement</u>.

In both the state case and this case, the *sine qua non* of SSI's claims, however styled or denominated, remains the same—an assertion of some right under the 1983 Agreement. Because of this direct nexus, the incurable contamination found by the state court exists equally here and eliminates any possibility of a fair trial on SSI's counterclaims.

1. Royalty Entitlement Claims (Fourth, Fifth, Sixth, and Seventh Counterclaims).

The Fourth, Fifth, and Sixth counterclaims are the contract and fraud claims that, as the Court noted in its June 3 Order, are "coextensive" with SSI's terminated state court claims. Those counterclaims are precluded under both res judicata and collateral estoppel, as explained in Disney's summary judgment papers. *See, e.g.*, *Kahn*, 68 Cal. App. 3d at 379-87; Disney Summary Judgment Motion ("Mot.") at 8-22; Disney Summary Judgment Reply ("Reply") at 2-10.

Each of these counterclaims hinges on interpretations of the 1983 Agreement. As in the state case, SSI here alleges that Disney breached the 1983 Agreement by not paying royalties on certain uses of the Pooh Works and applying what SSI contends are the proper accounting formulas on other uses. But for the

[2] In response to the Court's June 3 order requesting the evidence underlying the state court's findings, Disney submits the state court hearing exhibits (Exs. F-G), hearing transcripts (Exs. V-Z), and briefing (Exs. H-U, AA-GG). Throughout this brief, Disney will cite to particularly significant documents from that record.

state court judgment, these issues would remain the subject of disputed interpretation. For example, in its Fourth Counterclaim, SSI claims "Disney has committed material breaches of the 1983 Agreement by failing to properly . . . pay royalties" for its uses of the Pooh Works. (Ex. E ¶ 147.) It also contends a royalty is owed on each separate stream of revenue on a single product (*id.* ¶¶ 149-52) and that Disney must calculate royalties based on what its licensees receive, as opposed to what those licensees remit to Disney (*id.* ¶ 147). In its Fifth, Sixth, and Seventh counterclaims SSI alleges, as in the state court, that Disney "breached the implied covenant of good faith and fair dealing in the 1983 Agreement by failing to pay the proper royalties" (*id.* ¶ 163); falsely represented that "all gross revenues . . . were properly reported and paid" (*id.* ¶¶ 173-75); and committed "material breaches" of the 1983 Agreement giving SSI the right to terminate it (*id.* ¶¶ 179-80).

2. Federal Infringement Claims (First, Second, and Third Counterclaims).

SSI's counterclaims for copyright, trademark, and trade dress infringement also require adjudicating the scope of the 1983 Agreement. To prevail, SSI must establish that the 1983 Agreement did not convey all its rights to the Pooh Works—that it retained an ownership interest in the Pooh intellectual property at issue.[3] This, in turn, requires rulings on the meaning and intent of such provisions of the 1983 Agreement as Paragraphs 5, 6, 7, and 8, which together delineate the scope of the grant of rights to Disney. (*See* Ex. D.)

SSI's own May 12 Opposition brief confirms that its infringement counterclaims hinge on interpretation of the 1983 Agreement:

- SSI acknowledged that whether the 1983 Agreement granted Disney all rights or allowed SSI to retain some is key to litigating its infringement

[3] To prevail, SSI would also have to overcome the fact that throughout the state court litigation it argued the exact opposite—that Disney had received all the Pooh rights SSI had to give. (*See* Mot. at 25:7-29:7.) SSI has yet to explain why, if its rights were actually being infringed, it waited nearly 50 years to complain.

counterclaims: "Disney's request for summary judgment/adjudication on these claims must fail" because it "did not obtain all rights which Slesinger possessed" pursuant to the 1983 Agreement. (*See* SSI Summary Judgment Opposition ("Opp.") at 30:1-7.)

- SSI asserted there are disputed material issues of fact concerning the proper interpretation of the 1983 Agreement: "The 1983 Agreement and its 'side' letter . . . demonstrate, or at least raise a material fact, that Slesinger reserved rights." (*See* Opp. at 23:17-19.)
- SSI asked for full-blown discovery and litigation concerning the Agreement's interpretation: "The Court should . . . allow Slesinger to conduct discovery on these issues." (*See* Opp. at 40:11-13.)

In short, though cast as infringement claims, SSI's First, Second, and Third counterclaims are rooted in its interpretation of the 1983 Agreement, the heart of the state litigation.

3. SSI's "Orchestration" Claims (First, Fifth, and Twelfth Counterclaims).

Finally, SSI claims that Disney breached the contractual covenant of good faith and fair dealing and engaged in an unfair business practice by purportedly orchestrating Clare Milne and Minette Hunt's service of copyright termination notices. These counterclaims also depend on an interpretation of the 1983 Agreement. According to SSI, Disney's supposed control over Milne and Hunt—a theory contrary to fact—was unfair and exercised in bad faith because it contravened the eighth recital in the 1983 Agreement regarding the potential for "any right of termination" under then-existing provisions of the Copyright Act. (*See* Ex. D.) Disney contends that the parties never could have intended by the 1983 Agreement to address new copyright termination rights that did not come into existence for another 15 years, and that the 1983 Agreement could not circumscribe the rights of Milne and Hunt, who were not parties to it. Once again, adjudication of these issues has been permanently tainted by SSI's misconduct.

C. <u>The State Court's Specific Findings and the Evidence that Supports them Directly Preclude SSI's Counterclaims</u>.

The state court made detailed findings regarding SSI's misconduct and its consequences. For this Court's convenience, we organize the state court's findings into five categories and explain below how, individually and cumulatively, they preclude further litigation of SSI's counterclaims.

1. SSI Stole, Used—and Likely Still Possesses—Privileged and Other Disney Documents Directly Related to Interpretation of the 1983 Agreement.

The state court carefully recounted SSI's decade of stealing documents from Disney's offices and disposal facilities for use in the litigation. (Ex. A at 2-10.) Committing illegal acts in the litigation process plainly warranted the ultimate sanction of dismissal. But the state court specifically found much more. Especially significant for this case are the findings concerning what SSI learned from the stolen documents regarding the parties' disputes under the 1983 Agreement, how SSI used the ill-gotten information, and why there is no way to protect against further unfair use. (*See id.* at 1-3, 12, 17-21, 23; Ex. B at 3.)

The state court found that SSI targeted those Disney offices and secure disposal facilities that it believed would yield confidential documents useful to achieving its litigation ends. (Ex. A at 4-10.) SSI's agent David Bentson and investigator Terry Sands admitted using stolen Disney corporate directories to identify relevant Disney employees and locations. (Exs. K (App. of Dep., Sands Dep. at 51:7-15, 53:8-12); V (2/24/04 Hr'g Tr. at 122:1-123:16, 128:1-5 (Sands testimony re: corporate directory)); W (2/25/04 Hr'g Tr. at 149:7-26 (same), 262:22-24 (Bentson testimony re: corporate directory)).) The state court found that SSI accomplice Dale Holman, Sr. told the truth when he confessed to evading security guards at Disney's buildings, entering interior offices, taking documents "off desks inside offices," and stealing documents from "[Disney's] locations in Northridge, Burbank, Glendale and trash cans on Flower Street."[4] (Exs. F (Hr'g Exs. 174-75 (security reports)); K (App. of Dep., Holman, Sr. Dep. at 11:6-15:13, 40:12-41:11, 72:2-73:4).)

SSI's thefts focused on the business units and personnel most directly involved in implementing and interpreting the 1983 Agreement including:

Consumer Products. This business unit oversees Disney's worldwide merchandising and licensing operations. Stolen documents include papers belonging to Vince Jefferds, Disney's chief negotiator of the 1983 Agreement, and Wendell Mohler, who worked directly under Jefferds,[5] and merchandise sales reports that include Pooh products (Ex. F (Hr'g Ex. 594).)

Legal. Stolen—and privileged—legal department documents concern Disney's definition of "merchandise" and its royalty policies (*id.* (Hr'g Ex. 533)) (discussed further below); Disney license agreements containing restrictions and/or exclusivity (*id.* (Hr'g Exs. 539, 541, 543)) (discussed further below); Winnie the Pooh licensing and revenue (Ex. F (Hr'g Ex. 864)); correspondence about pending litigation regarding videocassette rights, including strategic decisions (*id.* (Hr'g Exs. 436-44)); and interrogatory responses (in another case) regarding videocassette rights (*id.* (Hr'g Ex. 495)).

Accounting. Stolen accounting documents include a Pooh licensee audit (Ex. F (Hr'g Ex. 488)); audits of non-Pooh character licensees (*id.* (Hr'g Exs. 490-93)); and information about royalties paid (*id.* (Hr'g Exs. 788-90)).

---

[4] A "primary source of Disney documents" was Golden State Fibres ("GSF"), a secure facility that collected and destroyed "internal company documents," including confidential and privileged materials. (Exs. A at 6-8; V (2/24/04 Hr'g Tr. at 131:26-132:18) (Sands admitted following GSF trucks); O (Further App. of Decl., 5/23/03 Supp. Collet Decl. ¶ 17) (GSF driver offered money for Disney papers); K (App. of Decl., Holman, Jr. Decl. ¶ 1) (Sands entered GSF "through a hole in the fence" and removed Disney papers in a duffel bag).)

[5] Ex. F (Hr'g Exs. 502-03, 642-48, 679-83, 686, 688-89, 693, 700-02, 704-06, 708-16, 719, 721, 723, 727-29, 731, 734-47, 750-53, 755-57, 760, 762-68, 770, 772-79, 782, 792-94, 796, 868, 972-73, 981-1005, 1007-1024, 1026-27).

Disney Stores. This business unit has extensive merchandising and licensing arrangements concerning Pooh properties. Stolen documents pertain to Pooh merchandise (Ex. F (Hr'g Ex. 421)); merchandising system operation (*id.* (Hr'g Ex. 654)); Disney's merchandise vendors (*id.* (Hr'g Ex. 420)); pricing for Pooh and other Disney products (*id.* (Hr'g Ex. 569)); sales reports (*id.* (Hr'g Exs. 425-29, 432-35, 653, 808-15)); and training, policies, and procedures (*id.* (Hr'g Exs. 482, 486, 542, 613, 633)).

Home Video. Stolen documents include a video license agreement (Ex. F (Hr'g Ex. 496)) and general information on Winnie the Pooh and other Disney movies (*id.* (Hr'g Exs. 483-85, 497)).

SSI methodically set about stealing every document that might help it develop arguments regarding interpretation of the 1983 Agreement and anticipate Disney's arguments regarding the meaning of that contract. Even the fragmentary disclosure of the documents SSI stole indicates it was remarkably successful in finding relevant documents, considering the vast universe of documents at a company like Disney. In a case turning on interpreting the 1983 Agreement, the litigation value of the stolen information SSI harvested from Disney offices and other locations cannot be overstated, as the following examples demonstrate:

- A legal department memorandum to Edward Nowak, Disney's senior in-house litigation attorney in charge of the state case and this case, analyzing what the state court termed a "core issue"—the meaning of the term "merchandise" under the 1983 Agreement. (Exs. F (Hr'g Ex. 533); A at 13.) The meaning of "merchandise" to the parties is also at the core of SSI's counterclaims seeking royalty payments for more types of merchandise and at higher rates, as well as its counterclaims seeking infringement damages for Pooh merchandise SSI now claims Disney had no right to market or license. SSI could not have been confused about what it had obtained. The memo is on "Office of Counsel" letterhead, the subject line reads "<u>Slesinger v. Disney</u>," and the document is marked "**<u>PRIVILEGED</u>**

<u>AND CONFIDENTIAL</u>." (Ex. A at 12.) There can be no more compelling proof of the incalculable harm to the prospect of a fair trial—in state court or in this Court—intended and inflicted by SSI's illegal actions. As the state court said: "One must pause here. Conduct of this sort strikes at the heart of the judicial process. Lay persons know that. Lawyers do too." (*Id.* at 13.)

- A "Suit Overview" document prepared by Disney's strategic planning department and its attorneys. (Ex. F (Hr'g Ex. 532).) This document is a template for Disney's evaluation of SSI's case, including identification of the "central issues," "Potential Outcomes," and probabilities of various litigation results. (*Id.*) The court found these documents "always bore" a cover sheet legend reading "**Privileged & Confidential – Attorney Work Product.**" (Ex. A at 11.) The state court concluded: "it is hard to imagine a work product document whose contents could be more confidential . . . . SSI had to realize the tactical significance of the document. SSI's attorneys surely did." (*Id.* at 11-12.) SSI will likewise reap impermissible tactical benefits in this case from having studied Disney's evaluations of its likelihood of success on whether, for example, the 1983 Agreement requires Disney to pay SSI royalties on home video exploitation, a key issue in SSI's counterclaims. (Mot. at 15:1-23.)

- A "privileged and confidential" memorandum "concerning the scope of Disney's legal rights relating to Winnie the Pooh, *rights at issue here*." (Exs. A at 18 (emphasis added) (citation omitted); F (Hr'g Ex. 572).) Those same rights are also at issue in this Court. The memorandum contains a candid discussion among Disney executives, including Peter Nolan, the Disney attorney responsible for preparing the 1983 Agreement, regarding the limits on Disney's ownership of "rights to [Pooh] characters." (Ex. F (Hr'g Ex. 572); *see also* Opp. at 32:10 (describing Nolan as "principal drafter of the 1983 Agreement").)

- A copy of Disney's "Restricted Items List," a 278-page document maintained by Disney's in-house counsel summarizing Disney's exclusive license agreements with third parties. (Exs. F (Hr'g Exs. 539, 541, 541A, 918); A at 13.) Its cover page is marked "**CONFIDENTIAL;**" its pages are marked "**CONFIDENTIAL - For Internal Use Only**." (*Id.*) This stolen Disney legal department document directly bears on SSI's counterclaims that some of the listed licensing agreements infringe on intellectual property rights the parties supposedly reserved to SSI in the 1983 Agreement. Particularly since Mr. Sands apparently targeted documents dealing with rights arising under that Agreement, other documents stolen from offices and off desks in Disney's legal department and later destroyed or still held by SSI could provide SSI another valuable road map in litigating its royalty, infringement, and orchestration counterclaims.

- "Interrogatory Tables" used by Disney's business segment to prepare responses to interrogatories propounded by SSI in the state case. (Ex. F (Hr'g Exs. 535, 567/567A).) These tables were marked "**Attorney work product. Privileged and confidential. Created at the request of counsel.**" (*Id.*; Ex. A at 17.)

- Privileged and confidential memoranda concerning Disney's right to use Winnie the Pooh at Tokyo Disneyland and the status of Disney's negotiations with the Milne Trust for such rights. (Exs. F (Hr'g Exs. 572-580); A at 18.) In its Summary Judgment Opposition, SSI highlights what it calls a "new" claim regarding another Disney theme park. (Opp. at 18:14-24.)

When its misconduct came to light, SSI insisted its years of trespass, burglary, and theft yielded nothing of value. The state court emphatically disagreed. It found the stolen documents were "decidedly not useless" and were "directly related" to SSI's claims against Disney. (Ex. A at 3.) The Court of Appeal concurred: "SSI's own behavior . . . demonstrates the *materiality* of the *information* it illicitly obtained." *Stephen Slesinger, Inc. v. Walt Disney Co.*, 155 Cal. App. 4th 736, 772 (2007) (emphasis added). Pati Slesinger, SSI's sole shareholder, reviewed the stolen documents at her attorneys' office (Ex. O (Further App. of Dep., 4/22/03 Slesinger Dep. at 2243:12-24, 2245:15-2246:16)); she and others associated with SSI wrote notes on over 300 pages of the stolen documents (Ex. F (Hr'g Exs. 255 (redaction log), 391 (privilege log))); they faxed them to one another (*id.* (Hr'g Exs. 535, 537 (stolen documents showing SSI's fax stamp)); Exs. O (Further App. of Dep., 4/22/03 Slesinger Dep. at 2299:2-5, 2301:3-11); X (2/26/04 Hr'g Tr. at 359:5-362:24)); and they used them in motions to the state court (Ex. F (Hr'g Ex. 48)). (*See also* Ex. A at 3, 12, 17-21.) As the state court cited, SSI itself sought to justify its possession of the stolen documents because they were of "shocking" importance to the case and bore on issues "key" to SSI's claims. (Exs. V (2/24/04 Hr'g Tr. at 81, 75-77 (SSI's opening statement)); A at 3.)

Moreover, the *6,400* non-duplicative pages of stolen documents SSI *admits* taking "represent only a small portion of the Disney writings SSI acquired," and the state court found that SSI "likely still possesses" many more. (Exs. A at 2; F (Hr'g Exs. 2135 (summary of stolen documents); 420-1027 (stolen documents); 89-97, 360-66 (production cover pages)).) There is no way to know the full extent of the documents and information SSI illegally obtained—SSI made it impossible to know by assuring there were no records of what it took, what it kept, what it read, and what it destroyed. (Ex. A at 2.) SSI's investigator Sands "destroyed his notes and shredded his payment records by hand. SSI wanted his activities kept secret." (*Id.*; Ex. W (2/25/04 Hr'g Tr. at 159:2-24).) SSI's attorneys kept no accounts of the documents they received, reviewed, or destroyed (Ex. Z (3/2/04 Hr'g Tr. at 679:11-20, 714:3-14))—"not, in the Court's view, accidental." (Ex. A at 2.) These facts, along with the extensive "[d]eceptions surrounding SSI's piecemeal and grudging production of Disney documents," compelled the court to reject "SSI's assurances that all involved documents have either been disclosed to the Court or discarded by SSI and that none have been retained." (*Id.* at 2, 4.)

2. SSI Altered Documents and—Through Ms. Slesinger's False Testimony—Presented them to the Court as Genuine.

The state court found that SSI produced altered documents to the court and Disney, Ms. Slesinger was directly responsible, and her denials on the witness stand were "false." (Ex. A at 18.) Based on irrefutable physical evidence, expert testimony, and other evidence, the state court concluded that SSI removed "Privileged" and "Confidential" legends from the stolen Restricted Items List and Interrogatory Tables before turning them over to the court and Disney. (*Id.* at 13-18.) A forensic document examiner's testimony established "beyond all reasonable doubt" that these documents were altered after coming into Ms. Slesinger's possession and then passed off by SSI as genuine. (*Id.* at 14; Exs. X (2/27/04 Hr'g Tr. at 12:11-92:5); G.) One-of-a-kind damage patterns and photocopier marks established that SSI's supposedly "clean" documents had been generated from the privileged and confidential originals. (*Id.*) SSI removed the "Privileged & Confidential – Attorney Work Product" cover page from Disney's "Suit Overview" analysis that "distilled the central issues of the lawsuit and assigned a risk analysis to potential outcomes." *Slesinger*, 155 Cal. App. 4th at 749. The state court described this as "a work product document whose contents could not be more confidential." (Ex. A at 12.)

SSI altered these documents, the court found, in order to "create the false impression" that Disney's documents were neither privileged nor confidential (Ex. A at 15), so it could use them in the litigation. True to its goal, SSI used one of the altered documents in a motion to the court to obtain additional information regarding the licensing relationships described in the altered document. (Ex. F (Hr'g Ex. 48).) In verified discovery responses and in court filings, SSI falsely swore that the document bore no indicia of confidentiality and no one at SSI knew how it obtained the document. (Exs. H; K (App. of Disc., Exs. FF-HH).) These episodes are only one small part of a long history of rampant misconduct impelling the state court to find that "SSI is dishonest and shows no remorse." (Ex. A at 27.) In these circumstances, neither Disney nor this Court can have any confidence in the authenticity of SSI's evidence.

3. SSI Repeatedly Misled the Court and Disney.

The Court of Appeal rejected SSI's argument that the trial court improperly speculated about the likelihood of future SSI misconduct: the trial court "relied not on speculation, but SSI's history of misconduct—a history that is reliably predictive." *Slesinger*, 155 Cal. App. 4th at 773. That history is equally predictive here, as SSI seeks to relitigate issues on which it already manifested a "deliberate indifference to the truth." *Id.* at 766, 773. For example:

False Testimony. The state court found that SSI's two principals gave false testimony about the document thefts and fraudulent cover-up. (Ex. A at 17-18, 21-22.) Ms. Slesinger lied about altering documents. (*Id.* at 18.) She gave false testimony about stealing documents, professing not to know what her private investigators were doing ("Whatever investigators do. I don't—no, I don't" (Ex. K (App. of Dep., 3/12/02 Slesinger Dep. at 1864:20-23))); about whether the investigators were stealing documents from Disney ("No" (*id.* at 1866:23-1867:7)); and about how SSI obtained various documents ("I don't have any idea" (*id.* at 1871:1-23)). The court found that SSI exploited this untruthful testimony in multiple court proceedings.[6] (Ex. A at 22 n.16.) In fact, "Ms. Slesinger knew of her investigator's activities through sources and personal experiences." (*Id.* at 21.)

The state court found that SSI's only corporate officer, Ms. Lasswell (Pati Slesinger's mother), also gave false testimony when she denied knowing SSI had hired a private investigator or had stolen documents, asserting instead, "I don't

---

[6] SSI's attorneys first claimed that Ms. Slesinger "didn't know anything" about the document thefts. (Exs. K (App. of Hr'g Tr., 10/24/02 Hr'g Tr. at 37:9-20); O (Further App. of Hr'g Tr., 2/19/03 Hr'g Tr. at 29:15-19).) In pleadings regarding the thefts, SSI repeatedly asserted that Ms. Slesinger knew nothing. (Ex. K (App. Ex., Ex. 76 at 4:1-3).) The state court was "troubled" by these misrepresentations, as it turned out that Ms. Slesinger "did know all along." (Ex. A at 22 n.16.)

know anything about anything like that." (Ex. K (App. of Dep., 10/27/97 Lasswell Dep. at 66:24-67:8, 829:6-830:4).) Ms. Lasswell did know; the court found "[c]onfidential Disney documents taken by Sands and his helpers bear fax transmission headers to and from Shirley Lasswell's [personal] Florida office." (Exs. A at 21; X (2/26/04 Hr'g Tr. at 359).)

False Discovery Responses. When SSI first sought to use two stolen privileged documents, Disney served interrogatories and document requests asking how SSI obtained the documents and whether it had any others. (Ex. F (Hr'g Exs. 157, 160).) SSI chose to lie, stating the documents were "produced by Disney" and disclaiming knowledge of other such Disney documents in its possession. (*Id.* (Hr'g Exs. 159, 161-62).) The state court found that SSI's false responses, verified under oath, were not "a product of confusion and inadvertence," but rather a calculated choice of deception over "complete and fully candid disclosure." (Ex. A at 20.) There is no basis for Disney—and this Court—to accept the truthfulness of any discovery response from SSI in this case either.

Fraudulent Motion. SSI steadfastly maintained deceit over candor when its cover-up began to unravel. It abruptly ran into court with a fraudulent "Motion re: Discarded Document" claiming that a stolen document in its possession had actually been lawfully found, and asking the court for permission to use that "highly relevant" document. (Exs. A at 3; H-J.) The state court found that this motion was "willfully false and calculated to induce the Court to rely on false testimony"—an unabashed "fraud on the Court." (Ex. A at 3.) "Thankfully," the court observed, "the truth emerged in time to thwart the attempt at inducing the Court to rely on falsifications." (*Id.* at 20 n.14.)

4. SSI Violated Court Orders in Order to "Actively Withhold" Relevant Evidence About Interpretation of the 1983 Agreement.

From the outset, SSI defied its obligation to respond truthfully to discovery related to its contentions about the 1983 Agreement. Disney propounded interrogatories and document requests requiring SSI "to identify all relevant promises, including oral and written representations, allegedly made by Disney to SSI" and to produce all related documents. (Ex. F (Hr'g Exs. 130, 133, 139, 148, 151).) SSI's resistance required Disney to obtain three separate court orders compelling full responses.[7] The state court found that SSI nonetheless "repeatedly failed to supply certain key information and documents on point, *despite court orders requiring compliance*." (Ex. A at 24 (emphasis added).)

SSI never identified any oral promises in its original complaint. (Ex. HH.) Nor did it do so in response to Disney's many discovery requests and three court orders. (Ex. F (Hr'g Exs. 2123-24 (Disney's compilations of requests and responses), 2126 (Disney's summary of court orders SSI violated)).) Only *after* the death of Vince Jefferds, Disney's chief negotiator, did SSI surface its allegation that he made oral representations supporting SSI's claims about the unstated intent of the 1983 Agreement. SSI then produced for the first time certain memos ostensibly from Ms. Slesinger to her mother attributing oral representations to Mr. Jefferds about Disney's intent for the 1983 Agreement, including that Disney would pay royalties to SSI on "videos and all these new things." (Ex. K (App. of Exs., Ex. 14); *see also* Ex. F (Hr'g Exs. 13, 15, 16, 18, 20, 21, 23, 24).)[8]

[7] In September 1994, the court ordered SSI to "specifically identify" every promise or misrepresentation underlying its claims. (Ex. K (App. of Ex., Ex. 6).) In June 1995, the court ordered SSI to produce "all . . . documents relating to the negotiation and execution of the 1983 Agreement" and "all . . . documents relating to the remaining contract interpretation issues." (*Id.* at Ex. 8.) In March 1996, the court required SSI to update and complete its document production. (*Id.* at Ex. 12.)

[8] Other witnesses have also passed away, including former Disney executive Franklin Waldheim, SSI attorney Alfred Wasserstrom, (Ex. II), and Ms. Lasswell.

SSI told the court it withheld these key documents as privileged. That was a fabrication; the court found that SSI could identify "no applicable privilege that would justify not disclosing the documents." (Ex. A at 25.) At the very least, the documents "should have been listed on a privilege log." (*Id.*; Ex. F (Hr'g Ex. 391) (SSI's privilege log).) Moreover, a claim of privilege would not justify SSI's failure to disclose the underlying facts in its interrogatory responses. (Ex. F (Hr'g Exs. 134, 138, 140-44, 146-47, 149-50, 155-56, 161-62).) The state court concluded: "SSI was obligated early on to disclose fully in discovery the underlying non-privileged facts concerning non-privileged conversations between SSI and Jefferds. SSI did not fulfill this obligation." (Ex. A at 25.)

Disney's ability to present its defense in this Court is equally prejudiced by "SSI's failure to timely produce, and active withholding of, relevant SSI information and documents." (Ex. A at 26.) As the state court found, "Disney had a right to receive this information early on so it could adequately defend itself and obtain relevant evidence." (*Id.* at 24.) If true, the alleged communications with Mr. Jefferds date back to the early 1980s and should have been disclosed by SSI in mid-1991, in time for Mr. Jefferds to testify to his version. The same is true of other key witnesses, such as Richard Floum (SSI's lead negotiator of the 1983 Agreement) and Seymour Bricker (the Milne Trust's lead negotiator of the 1983 Agreement), who both died before SSI's belated disclosures. Had SSI complied with its discovery obligations, Disney would have elicited testimony of these witnesses, which would be available in this litigation to defeat SSI's contentions regarding the 1983 Agreement. By withholding that evidence, SSI ensured that its principals' self-serving accounts about the parties' contract could never be directly contradicted by percipient witnesses.[9]

[9] While the state court did not address the authenticity of the late-produced SSI memos, their sudden appearance years into the state litigation—after six sets of discovery requests and three court orders to compel disclosure—fits into the mosaic of deceit that now aims at destroying the integrity of *this* Court's processes.

5. SSI Made a Fair Trial Impossible on the Parties' Rights and Obligations Under the 1983 Agreement.

The state court found that "SSI's principals who read Disney's writings possess in their minds information which no Court order or sanction can purge." (Exs. A at 2-3; X (2/26/04 Hr'g Tr. at 407:9-23) (Ms. Slesinger testified that "it's impossible for me to distinguish" the stolen Restricted Items List from the other "70,000 pages of documents that I have in my office.").) On that basis, that court also found that "SSI contaminated itself, and *the contamination is incurable*." (Ex. A at 23 (emphasis added).) Because all of SSI's counterclaims in this case derive from interpretation and implementation of the 1983 Agreement—as in the state case—the incurable contamination equally taints this case and threatens both the appearance and actuality of a fair trial.

Especially telling are the state court's findings that SSI "likely still possesses" many additional Disney documents and that no order by any court would suffice to separate SSI from its illegal advantages: "SSI cannot be trusted to comply fully with any future order requiring it to purge its files of improperly obtained Disney documents." (Ex. A at 2, 16.) Thus it is, and will remain, impossible to know what privileged and other Disney documents—or information derived from such documents—SSI has retained. (*Id.* at 2.) What *is* known with certainty is that SSI has guilty knowledge from illicitly obtained Disney documents, its guilty knowledge bears directly on its counterclaims in this case, and its guilty knowledge can never be purged.

In concluding no fair trial was possible, the state court specifically found that SSI *remains* "imbued" with ill-gotten information: "No power the Court possesses short of termination can fully guard against the conscious or subconscious application of SSI's knowledge in shaping the future course of the litigation and its outcome." (Ex. B at 3.) The state court, affirmed by the Court of Appeal, found that no lesser sanction could "deter SSI's future misuse of the information. SSI is dishonest and shows no remorse." (Ex. A at 27.) Nor could a remedial order be effective "if SSI concludes, as it apparently has in the past, that compliance with a court order does not serve its private tactical objectives." (*Id.* at 3.)

Based on the incurability of SSI's contamination and futility of any lesser remedy, the Court of Appeal agreed that the trial court could not "protect the fairness of the trial" of SSI's claims under the 1983 Agreement. *Slesinger*, 155 Cal. App. 4th at 762. That is why the trial court concluded that "no remedy short of terminating sanctions can effectively remove the threat and adequately protect both the institution of justice and [Disney] from further SSI abuse." (Ex. A at 1.) As we next explain, the same remedy is not only appropriate, but compelled in this case.

III. SSI'S COUNTERCLAIMS SHOULD BE TERMINATED BECAUSE THEY HAVE BEEN TAINTED BY SSI'S ILLEGAL ACTS.

As this Court recently affirmed, federal courts have "the inherent power . . . to levy sanctions in response to abusive litigation practices." *Columbia Pictures*, 2007 WL 4877701, at *5. That power is exercised when a party has engaged "deliberately in deceptive practices that undermine the integrity of judicial proceedings" or "in conduct utterly inconsistent with the orderly administration of justice." *Leon v. IDX Sys. Corp.*, 464 F.3d 951, 958 (9th Cir. 2006).

Before this Court is a party that was found—in an action against the same defendant and involving claims based on interpretation of the same contract—to have lied, stolen, and manufactured evidence to gain litigation advantages. If SSI's counterclaims proceed, that assault on the judicial process will directly imperil the integrity of this Court's processes. The Ninth Circuit has held that district courts have authority to terminate the cases of litigants who share SSI's "deliberate indifference to the truth." *Slesinger*, 155 Cal. App. 4th at 766. For example, in *Valley Eng'rs Inc. v. Elec. Eng'g Co.*, 158 F.3d 1051 (9th Cir. 1998), a party withheld a material document from production, finally producing it after three years of discovery and a court order. *Id.* at 1053-54. As for SSI, the state court rejected its contention that it no longer had undisclosed documents and found that in any event SSI possesses guilty knowledge. Thus, the Ninth Circuit's observation is especially apt: "hiding the [withheld] memorandum and lying about it had cast a pall upon the disobedient parties' integrity and the expectation that this case is capable of a fair and just resolution on the merits. There was no . . . reason to expect that everything was finally disclosed." *Id.* at 1059 (internal quotation omitted).

The Ninth Circuit's conclusion applies exactly here: "There is no point to a lawsuit, if it merely applies law to lies . . . . Considering how [the sanctioned party] acted regarding the [withheld] memorandum, *it was a reasonable inference that if there was other discoverable material harmful to its case that its adversaries did not know about, it would be hidden forever*." *Id.* at 1058 (emphasis added). Termination was proper because the "wrong from hiding the [withheld] memorandum and lying about it was not merely to [the opposing party] but . . . to the system of justice itself." *Id*. at 1059.

Determining whether a terminating sanction is appropriate requires the same five-factor analysis this Court employed in *Columbia Pictures*: "(1) the public's interest in expeditious resolution of litigation; (2) the court's need to manage its dockets; (3) the risk of prejudice to the party seeking sanctions; (4) the public policy favoring disposition of cases on their merits; and (5) the availability of less drastic sanctions." 2007 WL 4877701, at *5 (citing *Anheuser-Busch, Inc. v. Natural Beverage Distribs.*, 69 F.3d 337, 348 (9th Cir. 1995)).[10]

All five factors compel the sanction of termination in this case. The collateral estoppel effect of the state court's precise factual and legal findings definitively establishes the last three factors—the prejudice to Disney, the absence of effective lesser sanctions, and the need to forego the normal preference for decision on the merits—each weigh in favor of termination. This Court is fully authorized to

[10] These factors are "a way for a district judge to think about what to do, not a series of conditions precedent before the judge can do anything." *Valley Eng'rs Inc.*, 158 F.3d at 1057.

impose a terminating sanction *sua sponte*. *See Hamilton Copper & Steel Corp. v. Primary Steel, Inc.*, 898 F.2d 1428, 1429-31 (9th Cir. 1990) (inherent authority to terminate cases *sua sponte*); *Roadway Express v. Piper*, 447 U.S. 752, 764-66 (1980) (same).

A. <u>The First Two Factors Strongly Favor Termination</u>.

In *Columbia Pictures*, this Court considered together the first two factors, "the public's interest in the expeditious resolution of litigation and the Court's need to manage its docket." 2007 WL 4877701, at *6. There, the Court held that the defendant's discovery misdeeds "unnecessarily [drew] out the discovery period" and that "discovery disputes have consumed a considerable amount of time" before the Court and the magistrate judge. *Id.* Here, were SSI permitted to proceed, the litigation would consume an extraordinary amount of this Court's time. SSI has already consumed nearly *two decades* of judicial resources in state court. Three years were consumed almost exclusively by discovery and related motions aimed at uncovering, against SSI's fierce resistance, the truth about its grievous misconduct. Twenty-seven separate depositions, many sets of written discovery, and constant court intervention were necessary to wrest from SSI just some of the facts regarding its misconduct. That struggle will inevitably repeat itself. As the state court found, SSI never endeavored to provide "any sort of satisfactory accounting" of its behavior. (Ex. A at 2.) Indeed, just a few weeks ago, SSI defiantly insisted its misconduct "did not occur." (Opp. at 2:20.)[11]

[11] Because SSI's misconduct in state court is inextricably bound up with the issues and proof in this case, that misconduct will necessarily generate extensive discovery regarding such questions as what information did SSI obtain about Disney that it has not disclosed; when did it learn of that information; how did it learn of it; what were its sources; who reviewed the documents SSI admits having stolen; what was made of the information in those documents; to whom has that information been communicated; where are the stolen documents the state court determined SSI likely still possesses; who has information on that subject; who has reviewed those still-hidden documents; and in light of the state court's finding that SSI is "remorseless," what other illegal efforts has it made to obtain information regarding Disney's position in this litigation.

In short, because SSI's misconduct has "greatly impeded resolution of the case by obscuring the factual predicate of the case and consuming months of sanction-related litigation," these first two factors weigh decisively in favor of termination. *Leon*, 464 F.3d at 958 n.5 (internal quotation omitted).

B. <u>Disney Is Prejudiced by SSI's Illegal Conduct</u>.

The third factor—the "risk of prejudice"—addresses the "nexus between the [sanctioned party's] misconduct and the merits of the case." *Columbia Pictures*, 2007 WL 4877701, at *6. Termination is warranted where there is a "relationship between [the party's] misconduct and the matters in controversy such that the transgression threatens to interfere with the rightful decision of the case." *Anheuser-Busch*, 69 F.3d at 348 (internal quotation omitted).

The California Court of Appeal directly evaluated this and determined that the trial court had properly concluded that it could not "ensure a fair trial." *See Slesinger*, 155 Cal. App. 4th at 740. That court also endorsed the trial court's finding—which is preclusive under collateral estoppel—that SSI's proposed Document Review Counsel "would be inadequate to protect against SSI's use of improperly obtained information." *Id.* at 774. (*See* Exs. B at 3; EE-GG.) The Court of Appeal also found that termination was necessary based on the trial court's now-preclusive finding that the "full extent of SSI's knowledge remains uncertain as does the potential impact of application of that knowledge to potential *future litigation decisions and events*." *Slesinger*, 155 Cal. App. 4th at 772-73 (emphasis added). Those forward-looking determinations apply equally to this litigation.

As explained in Section II(C) above, the state court's findings establish that every essential aspect of SSI's misconduct has a direct nexus to the merits of this case that "threatens to interfere with the rightful decision of the case." *Anheuser-Busch*, 69 F.3d at 348. Collateral estoppel applies to those state court findings. *See Gottlieb*, 141 Cal. App. 4th at 148-49. The state court's misconduct findings fall squarely within the Ninth Circuit's nexus standard:

- SSI's past alteration of documents, false testimony, and withholding of critical information combine to deprive Disney of a full opportunity to present its defense. A nexus favoring termination exists when "the plaintiff's actions impair the defendant's ability to go to trial." *See Anheuser-Busch*, 69 F.3d at 353-54.

- SSI's theft of documents weighs in favor of termination because when a litigant steals documents its adversary is "prejudiced in its ability to fairly defend itself" and such prejudice "can only be cured by dismissal." *Jackson v. Microsoft Corp.*, 211 F.R.D. 423, 432 (W.D. Wash. 2002); *see also Columbia Pictures*, 2007 WL 4877701, at *7 (there can be no "presumption of irrelevance" "where a substantial number of items of evidence have been destroyed.").

- The destructive effects of stealing documents are so pernicious that courts have found that stolen documents need not be directly relevant for a nexus favoring termination to arise. A sufficient nexus to justify termination has been found irrespective of stolen documents' relevance, because theft of an opponent's documents "must be recognized as an interference with the judicial process and the orderly and fair administration of justice." *Perna v. Elec. Data Sys., Corp.*, 916 F. Supp. 388, 401 (D.N.J. 1995).

C. <u>Public Policy Favors a Terminating Sanction</u>.

The fourth factor addresses the public's interest, when public policy concerns are implicated, in adjudicating cases on the merits. In *Columbia Pictures*, the Court decided that the "online piracy" and "peer-to-peer network" questions at issue were of "considerable public importance beyond the narrow interests of the parties" and thus weighed against termination. 2007 WL 4877701, at *7; *see also Halaco Eng'g Co. v. Costle*, 843 F.2d 376, 382 (9th Cir. 1988) (suggesting that "public policy concerns must also be weighed *if* these would be affected by a dismissal.") (emphasis added); *Leon*, 464 F.3d at 960-61.

The public policy ordinarily favoring disposition of all cases on their merits was recognized by the state trial court and Court of Appeal, but they determined that in SSI's case that policy was outweighed by the significant considerations of prejudice to Disney and the integrity of the judicial process. *Slesinger*, 155 Cal. App. 4th at 764-65. The reasoning underlying that preclusive finding is consistent with the Ninth Circuit approach: "the public policy favoring disposition of cases on their merits . . . standing alone, is not sufficient to outweigh the other four factors." *Leon*, 464 F.3d 960-61 (internal quotation omitted).

Here, however, there is *another* a public policy interest, and it weighs in *favor* of termination: "there is a public interest in discouraging an 'anything goes' approach to litigation." *Perna*, 916 F. Supp. at 401. SSI's deliberately wanton misconduct deprives it of the right to complain that public policy would be harmed by termination: "it is unfortunate that [plaintiff] will not have an opportunity to litigate the substance of his claims [but he has] done such damage to his case that dismissal is the only viable remedy." *Jackson*, 211 F.R.D. at 432-33.

D. <u>A Terminating Sanction Is the Only Viable Remedy</u>.

The fifth factor asks whether "lesser sanctions would be appropriate or effective." *Columbia Pictures*, 2007 WL 4877701, at *8. In *Columbia*, this Court found that lesser sanctions "would not be adequate to punish the defendants for the wrongful conduct and ameliorate the prejudice and harm to the plaintiffs." *Id.* That conclusion relied on a finding equally applicable here: "Defendants' destruction or concealment of evidence, [forced] Plaintiffs to go to trial with incomplete and spotty evidence." *Id*. (internal quotation omitted). In an even more dire circumstance, the state court made the same finding—preclusive here under collateral estoppel—that no lesser sanction would suffice. (Ex. A at 27-28; B at 3.)

That this final factor also points toward termination is underscored by federal court rulings concerning misconduct far less egregious than SSI's:

Willful deceit. The state court found that SSI's acts were deliberately deceptive and undermined the integrity of the proceedings. (*See* Ex. A at 6, 13.) The Ninth Circuit has ruled that "dismissal is warranted where . . . a party has engaged deliberately in deceptive practices that undermine the integrity of judicial proceedings: courts have inherent power to dismiss an action when a party has willfully deceived the court and engaged in conduct utterly inconsistent with the orderly administration of justice." *Anheuser-Busch*, 69 F.3d at 348.

Unlikelihood of repentance and reform. The state court found that SSI would continue to engage in deceptive conduct absent terminating sanctions, including in future proceedings. Where a party "has engaged in deceptive conduct and will continue to do so," a terminating sanction is necessary and appropriate. *See In re Napster Copyright Litig.*, 462 F. Supp. 2d 1060, 1074 (N.D. Cal. 2006). Similarly, in a case where a party stole electronic documents from its opponent and relied on them in preparing its case, the court could "conceive of no sanctions which would cure plaintiff's extensive access to defendant's privileged and confidential materials and which *would assure plaintiff's honesty in the proceedings to come*." *Jackson*, 211 F.R.D. at 432 (emphasis added).

Document theft. Where a party steals documents, it shows a lack of respect for the judicial system that warrants dismissal. Thus, a New Jersey district court ruled that a plaintiff's removal of documents from his opponent's counsel's briefcase "irrespective of whether . . . the documents were privileged, work-product, or relevant, is the type of scandalous behavior that must not be condoned. It is the *act* that necessitates discipline." *Perna*, 916 F. Supp. at 400.

E. <u>SSI's Fraud on the State Court Highlights the Need for a Terminating Sanction</u>.

Not only do all five factors warrant a terminating sanction, SSI's manifest indifference to the truth and integrity of the judicial process calls for finally putting an end to this litigation. Fraud on the court occurs when "a party has sentiently set in motion some unconscionable scheme calculated to interfere with the judicial system's ability impartially to adjudicate a matter . . . ." *Aoude v. Mobil Oil Corp.*, 892 F.2d 1115, 1118 (1st Cir. 1989). SSI carried out its unconscionable scheme in state court, concealed it for a decade, and now wishes to proceed in this Court as though nothing happened. That SSI persists in denying its misconduct evinces its resolute disregard for the consequences of its actions. But as the state court conclusively found, the taint on its claims is incurable. That is why termination is warranted where a party, as SSI, commits a fraud on the court by producing falsified documents, *Prof'l Seminar Consultants, Inc. v. Sino Am. Tech. Exch. Council*, 727 F.2d 1470, 1474 (9th Cir. 1984) (default judgment); falsifying evidence, *Combs v. Rockwell Intern. Corp.*, 927 F.2d 486, 488-89 (9th Cir. 1991); and giving false answers at a deposition and in interrogatory responses. *Martin v. DaimlerChrysler Corp.*, 251 F.3d 691, 695 (8th Cir. 2001).

IV. CONCLUSION.

The policies underlying res judicata, collateral estoppel, and courts' inherent power to impose terminating sanctions all compel dismissal of SSI's remaining counterclaims. Dismissal is required by res judicata and collateral estoppel for those claims and issues that were or could have been raised in the state proceeding. It is also required under collateral estoppel for all of SSI's counterclaims, because each depend on SSI's contract interpretation arguments and all suffer from the irrevocable taint of SSI's misconduct. Without dismissal, the integrity of the judicial process and the rights of Disney cannot be protected. SSI cannot complain. As the California Court of Appeal wisely concluded, "[t]he demise of SSI's lawsuit has one cause only: the deliberate and egregious misconduct of SSI itself, making any sanction other than dismissal inadequate to ensure a fair trial." *Slesinger*, 155 Cal. App. 4th at 776.

Dated: June 30, 2008

Respectfully submitted,

O'MELVENY & MYERS LLP

By: ______________________
Daniel M. Petrocelli
Attorneys for Counterclaim-Defendants

EXHIBIT F

Joseph W. Cotchett (#36324; jcotchett@cpmlegal.com)
Nancy L. Fineman (#124870; nfineman@cpmlegal.com)
Philip L. Gregory (#95217; pgregory@cpmlegal.com)
Michelle T. Duval (#239497; mduval@cpmlegal.com)
COTCHETT, PITRE & McCARTHY
840 Malcolm Road, Suite 200
Burlingame, CA 94010
Telephone: (650) 697-6000
Facsimile: (650) 697-0577

Harvey Saferstein (#49750; hsaferstein@mintz.com)
MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO, P.C.
Century Plaza Towers
2029 Century Park East, Suite 1370
Los Angeles, CA 90067
Telephone: (310) 586-3200
Facsimile: (310) 586-3202

Andrew D. Skale (#211096; askale@mintz.com)
Daniel T. Pascucci (#166780; dpascucci@mintz.com)
Ben L. Wagner (#243594; bwagner@mintz.com)
MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO, P.C.
3580 Carmel Mountain Road, Suite 300
San Diego, CA 92130
Telephone: (858) 320-3000
Facsimile: (858) 320-3001

Attorneys for Defendant and Counter-Claimant STEPHEN SLESINGER, INC.

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

CLARE MILNE, an individual, by and through MICHAEL JOSEPH COYNE, her Receiver, and DISNEY ENTERPRISES, INC. **Plaintiffs,** **v.** **STEPHEN SLESINGER, INC.** **Defendant.**	Case No. CV-02-08508 FMC (PLAx) **SLESINGER'S OPPOSITION TO DISNEY'S SUPPLEMENTAL BRIEF RE COURT'S JUNE 3, 2008 ORDER** Hearing Date: September 8, 2008 Hearing Time: 10:00 a.m. Place: Courtroom 750 Honorable Florence-Marie Cooper
STEPHEN SLESINGER, INC., **Counter-Claimant,** **v.** **DISNEY ENTERPRISES, INC.; THE WALT DISNEY COMPANY; WALT DISNEY PRODUCTIONS.** **Counter-Defendants.**	

LAW OFFICES COTCHETT, PITRE & McCARTHY

TABLE OF CONTENTS

Page

LAW OFFICES
COTCHETT, PITRE & MCCARTHY

TABLE OF AUTHORITIES

Page

California Cases

Federal Cases

LAW OFFICES
COTCHETT, PITRE & McCARTHY

California Statutes

Federal Rules

Other Authorities

I. INTRODUCTION

At the March 3, 2008 Status Conference, after the California Court of Appeal issued its opinion in *Slesinger v. The Disney Co.*, 155 Cal.App.4th 736, 66 Cal.Rptr.3d 268 (2007), the Court asked the parties how the judgment in the state case affected the federal case and the parties agreed upon a schedule on a motion to dismiss. Thereafter, Counter-Defendants Disney Enterprises, Inc., The Walt Disney Company, and Walt Disney Productions (collectively "Disney") filed a motion for summary judgment arguing that *res judicata* or collateral estoppel barred this case on its merits. After all the briefing was completed, this Court, on June 3, 2008 requested specific further information:

> The Court hereby orders the parties to file supplemental briefs on the issue of **how the stolen documents and knowledge acquired by Slesinger's principals in the state action affect the ongoing validity of the claims remaining in this case**. The parties shall **make explicit reference to**, and furnish the copies of, all relevant documents. The parties should also brief the question of why imposition of a similar "terminating sanction" is not compelled in this case...

Order of June 3, 2008 (emphasis added).[1/] Disney filed a Supplemental Opening Brief ("SOB") which relies almost entirely on expanded snippets from the decision of Judge Charles W. McCoy, Jr., the trial judge, but which fails to provide specific analysis of how documents and knowledge allegedly acquired by Stephen Slesinger, Inc. ("Slesinger ") affects the validity of this case. Instead Disney relies upon generalities and references to Slesinger's alleged bad conduct, which does not answer the Court's questions. The reason is simple: Slesinger has gained no unfair advantage that affects this case and sanctions are not warranted.

---

[1] Since the Court has not yet independently reviewed the evidence or decided the preclusive affect of the state court's judgment, Slesinger respectfully suggests the term "stolen documents" should not be used.

Slesinger responds to the Court's questions as follows:

First, in response to the Court's question on terminating sanctions, the Court should not exercise its inherent authority to dismiss this case, and certainly not *sua sponte* without a noticed motion by Disney. To do so would violate due process standards and exceeds the limits on the Court's authority to impose so severe a sanction. As this Court has stated: "Termination of a case is a harsh sanction appropriate only in 'extraordinary circumstances.'" *Columbia Pictures v. Bunnell*, 2007 U.S. Dist. Lexis 96360, *24-25 (C.D. Cal. Dec. 13, 2007) citing *Halaco Eng'g Co. v. Costle*, 843 F.2d 376, 380 (9th Cir. 1988). Due process requires that before a court impose the severe sanction of dismissal, all appropriate procedural protections are provided. *Fjelstad v. American Honda Motor Co., Inc.*, 762 F.2d 1334, 1338 (9th Cir. 1985). Further, terminating sanctions are only appropriate to address conduct occurring in the litigation itself. *Zapata Hermanos Sucesores, S.A. v. Hearthside Baking Co. Inc.*, 313 F.3d 385, 391 (7th Cir. 2002). If the sanctionable conduct does not threaten to interfere with the rightful decision in the case, the sanction is an impermissible punishment. *See Wyle v. R.J. Reynolds Ind., Inc.*, 709 F.2d 585, 591 (9th Cir. 1993).

Here, Disney has not and cannot point to any sanctionable conduct which has occurred in this litigation. Since the case's filing in 2002, the parties have engaged in discovery and motion practice regarding Disney's now dismissed claim; Disney never claimed, much less filed a motion, alleging taint or unfair advantage, until now. Indeed, Disney did not suggest that the Court use its inherent authority to dismiss this action until the Court requested supplemental briefing, where for the first time Disney claims it cannot accept the truthfulness of any discovery response from Slesinger (SOB 14:14-15). The facts and law, however, do not support Disney's claims or the imposition of sanctions in this

LAW OFFICES
COTCHETT, PITRE & McCARTHY

case.[2/]

Second, there is no basis to terminate the case based upon documents and alleged knowledge acquired by Slesinger in the state case because Slesinger has not received an unfair advantage which interferes with the rightful decision of this case. Disney's citations to the state court opinions do not provide this Court with any justification, much less the exacting level of analysis and proof required to show an unfair benefit to Slesinger or prejudice to Disney that interferes with the rightful decision of this case. The potential wrongfulness of the conduct which resulted in the receipt of documents is not relevant to this analysis, as Slesinger has already been punished for that alleged conduct. It is only the specific documents and any resulting knowledge that is relevant to this inquiry. Rather than rely on the parties' description of the documents, the Court should review the documents themselves. This review will demonstrate that the documents and any resulting knowledge will not interfere with the rightful decision of the case because the information is either outdated and no longer relevant, or the information had already been disclosed by Disney, or it is public information.

Third, the Court should also consider the misconduct by Disney in destroying hundreds of thousands of pages of potentially relevant records and files relating directly to the 1983 Agreement, the negotiations surrounding the 1983 Agreement, and Disney's negotiations with the Milne Trust, when determining if any party should be sanctioned. The state court rebuked Disney and its counsel for these actions and issued harsh sanctions. It would be unjust to Slesinger for this Court to fail to consider Disney's wrongful conduct in deciding whether terminating sanctions are appropriate against Slesinger here.

---

[2] The state court's dismissal of the state case was a severe punishment where the California Court of Appeal acknowledged it was considering legal issues of first impression in California. *Slesinger,* 155 Cal.App.4th at 740.

Since the <u>only motion currently pending before this Court is Disney's motion for summary judgment</u>, Slesinger respectfully requests that the Court deny that motion and rule that no further motion practice will be entertained regarding the effect of the state court judgment.

II. STANDARD OF REVIEW

"Courts have the ability to address the full range of litigation abuses through their inherent powers. . . . '**Because of their very potency, inherent powers must be exercised with restraint and discretion**.'" *F.J. Hanshaw Enter. v. Emerald River Develop.*, 244 F.3d 1128, 1136-37 (9th Cir. 2001) quoting *Chambers v. NASCO, Inc.*, 501 U.S. 32, 44, 46, 111 S. Ct. 2123 (1991) (emphasis added).

Before dismissing an action, the Court must consider the following factors "(1) the public's interest in expeditious resolution of litigation; (2) the court's need to manage its dockets; (3) the risk of prejudice to the party seeking sanctions; (4) the public policy favoring disposition of cases on their merits; and (5) the availability of less drastic sanctions." *Leon v. IDX Sys. Corp.*, 464 F.3d 951, 958 (9th Cir. 2006) citing *Anheuser-Busch, Inc. v. Natural Beverage Distribs.*, 69 F.3d 337, 348 (9th Cir. 1995); *see Columbia Pictures v. Bunnell*, 2007 U.S. Dist. Lexis 96360, *24-25 (C.D. Cal. Dec. 13, 2007) citing *Halaco Eng'g Co. v. Costle*, 843 F.2d 376, 380, (9th Cir. 1988) ("termination of a case is a harsh sanction appropriate only in 'extraordinary circumstances.'").

"Due process limits the imposition of the severe sanctions of dismissal or default to 'extreme circumstances' in which 'the deception relates to the matters in controversy' and prevents their imposition 'merely for punishment of an infraction that did not threaten to interfere with the rightful decision of the case.'" *Fjelstad v. American Honda Motor Co., Inc.*, 762 F.2d 1334, 1338 (9th Cir. 1985) quoting *Wyle v. R.J. Reynolds Industries, Inc.*, 709 F.2d 585, 589, 591 (9th Cir. 1983); *see also Pacific Fisheries Inc. v. U.S.*, 484 F.3d 1103, 1111 (9th Cir. 2007); *Zapata Hermanos Sucesores*, 313 F.3d at 390.

The degree of due process protection depends upon the severity of the sanctions to be imposed. *F.J. Hanshaw Enter.*, 244 F.3d at 1137. "The more punitive the nature of the sanction, the greater protection to which an individual is entitled." *Id*. In *F.J. Hanshaw*, two brothers, Frederick and Gordon Hanshaw, were engaged in a bitter partnership dissolution and a receiver was appointed. One of the brothers, Gordon, allegedly offered the receiver a bribe during a lunch. The district court, the Honorable Gary Taylor, held two evidentiary hearings and concluded that Frederick attempted to bribe the receiver. Judge Taylor sanctioned Frederick $500,000, payable to the government and imposed a $200,000 surcharge in favor of Gordon. *Id*. at 1131.

On review, the Ninth Circuit analogized the case to cases involving contempt and distinguished between cases where the wrongful conduct occurred in the court's presence (direct contempt) and those that occurred outside the courtroom (indirect contempt). More protections must be provided when the wrongful conduct occurs outside of the court's presence. *Id*. at 1138. The Ninth Circuit held that the sanction of $500,000 was penal in nature and that Frederick was entitled to the full protection of due process, including a jury trial, presumption of innocence and proof beyond a reasonable doubt. *Id*. at 1138-39.

Additionally, sanctions by a state court in a civil case which are penal in nature do not need to be given full faith and credit by this Court. *See Yahoo! Inc. v. La Ligue Contre Le Racisme*, 433 F.3d 1199, 1218-19 (9th Cir. 2006); *In re Marriage of Gray*, 204 Cal.App.3d 1239, 251 Cal. Rptr. 846 (1988).

Disney has not called into question any conduct by Slesinger in the federal case; its arguments are all directed to alleged conduct in the state case, which was based upon a heavily disputed record. Since the alleged conduct did not occur in this Court, the Court should not dismiss this case *sua sponte*. If the Court believes that some sanction might be appropriate, the Court should provide sufficient safeguards to protect Slesinger's rights; such safeguards to depend on the nature of the sanction the Court might consider imposing.

III. THIS COURT SHOULD NOT GIVE ANY PRECLUSIVE EFFECT TO FINDINGS OF THE STATE COURT

The exercise of the Court's inherent power is discretionary and is to be based upon conduct occurring in the litigation itself. *Zapata Hermanos Sucesores,* 313 F.3d at 391. Therefore, since the alleged conduct did not occur in this case but in a prior case, the Court should not give any preclusive effect to the state court decisions because there was not any determination of how the alleged misconduct affects this case.[3/] *See Wyle*, 709 F.2d at 591.

Disney tries to analogize this case to collateral estoppel cases involving jurisdiction or exhaustion of remedies, but those cases are distinguishable: none deal with the way in which a party's alleged conduct affects an action in another court. Conduct in one case does not necessarily have any effect on conduct in another case. For example, a "witness [who] testified untruthfully at a prior time does not require a finding that he is testifying perjuriously at trial." *U.S. v. Aviles*, 274 F.2d 179, 190 (2nd Cir. 1960) (bracketed material added). Misconduct alone is insufficient. "For the Court to impose the sanction of default, it must find that there is a nexus between the Defendants' misconduct and the merits of the case, such that the misconduct 'interfere[s] with the rightful decision of the case.'" *Columbia Pictures, Inc. v. Bunnell*, 2007 U.S. Dist. Lexis 96360, *20 (C.D. Dec. 13, 2007) (quoting *Halaco Eng'g Co. v. Costle*, 843 F.2d 376, 381-382 (9th Cir. 1988)). This nexus is critical to ensure that cases are tried on their merits, rather than based on facts which do not affect a later claim or the litigation of that claim. Since the state court case did not make any of these required findings, application of collateral estoppel is inappropriate.

---

[3] Slesinger does not repeat the arguments it made in opposition to Disney's Motion for Summary Judgment regarding the preclusive effect of the state court judgment. To the extent they are relevant to the Court's analysis, Slesinger respectfully refers the Court to Slesinger's opposition.

LAW OFFICES
COTCHETT, PITRE & MCCARTHY

IV. THERE IS NO BASIS FOR THIS COURT TO IMPOSE SANCTIONS

The Court should not impose sanctions here because none of the required elements are met. *Leon*, 464 F.3d at 958.

A. THERE HAS BEEN NO IMPROPER BEHAVIOR BY SLESINGER IN THIS LITIGATION

This action has been pending for nearly six years, since November 5, 2002. During that time, there has been numerous motions and discovery, including a petition for review before the Supreme Court. *See e.g., Milne v. Slesinger*, 430 F.3d 1036, 1040 (9th Cir. 2005), *cert. den.*, 126 S.Ct. 2969 (June 26, 2006); Order Granting Defendant and Counter-Claimant Stephen Slesinger, Inc.'s Motion for Summary Judgment (Feb. 15, 2007). At no time has Disney made any accusations that Slesinger engaged in misconduct in this case. This Court cannot terminate this case without making its own determination whether bad behavior occurred in this litigation:

> The inherent authority of federal courts to punish misconduct before them is not a grant of authority to do good, [or] rectify shortcomings of the common law . . . . These cases and others we could cite make clear that it is a residual authority, to be exercised sparingly, to punish misconduct (1) occurring in the litigation itself, not in the events giving rise to the litigation (for then the punishment would be a product of substantive law – designed, for example, to deter breaches of contract), and (2) not adequately dealt with by other rules, . . .

Zapata Hermanos Sucesores, 313 F.3d 385, 390-391 (cases omitted). Since Disney fails to meet its burden to show any wrongful conduct by Slesinger <u>in this litigation</u>, sanctions are not appropriate. What is most telling is that instead of bringing a motion based on Slesinger's alleged bad conduct, Disney brought a motion for summary judgment. In this hard fought litigation, if Disney thought

LAW OFFICES
COTCHETT, PITRE & MCCARTHY

termination was legally justified, one can be sure Disney would have requested such relief in its Motion for Summary Judgment.

B. PUBLIC INTEREST IN EXPEDITIOUS RESOLUTION OF SUITS AND THE COURT'S NEED TO MANAGE ITS DOCKETS

There has been no delay or consumption of court time because of this issue. In *Columbia Pictures, Inc. v. Bunnell*, 2007 U.S. Dist. Lexis 96360 (C.D. Cal. Dec. 13, 2007), this Court looked at the factors of the public's interest in expeditious resolution and the Court's need to manage its dockets together; the Court concluded that the defendant had drawn out discovery and discovery disputes had "consumed a considerable amount of time both here and before the Magistrate Judge." *Id*. at *19.

Here, in contrast, Disney can show no delay or waste of resources in this case. No motions to compel have been filed and no orders disobeyed.

Moreover, Disney filed nine (9) boxes of documents from the underlying state court file (SOB 3, fn. 2). Accordingly, Disney has presented all evidence it considers relevant.[4/] Disney admits it has had three years of discovery, 27 depositions, and significant written discovery on this issue. There is no need, despite Disney's argument to the contrary (SOB at 20, fn. 11), for it to conduct any further discovery regarding alleged misconduct.

The first two factors do not support terminating sanctions; to the contrary, the Court's Order of June 3, 2008 suggests that the Court's order on the motion for summary judgment will resolve this issue, allowing the case to proceed quickly toward trial.

---

[4] Those boxes contain pleadings, declarations, depositions, hearing transcripts, and the documents in question, which are all duplicated multiple times either by their repeated attachment to subsequent pleadings or because duplicate copies were retrieved by Sands. (There are at least four versions of the 300-plus page 1991 telephone directory. SOB Ex. F, Hrg Exs. 487, 540, 886, 612.) Trying to locate any document in these boxes is a difficult and time consuming task. If the Court decides that it will consider a motion for terminating sanctions, Slesinger reserves its right to supplement the record.

LAW OFFICES
COTCHETT, PITRE & McCARTHY

C. RISK OF PREJUDICE TO PARTY SEEKING SANCTIONS

The thrust of Disney's argument is that it was prejudiced by Slesinger's actions in the state case. Slesinger was already punished in that case and cannot be punished here for conduct that does not affect the rightful outcome of this case. Unless Slesinger obtained knowledge from those documents which unfairly benefits Slesinger in this litigation, there can be no finding of prejudice to Disney in this litigation. Disney's authorities confirm that there must be a nexus between the sanction, misconduct and matter in controversy. *See Jackson v. Microsoft Corp.*, 211 F.R.D. 423, 432 (W.D. Wash. 2002) ("Some of this proprietary information goes directly to the heart of this litigation."); *Perna v. Electronic Data Sys. Corp.*, 916 F.Supp. 388, 401 (D.N.J. 1995) (Misconduct penalized must relate to matters in controversy in such a way as to interfere with the rightful decision of the case.). The facts demonstrate Slesinger has not obtained any unfair benefit in this case.

1. The Documents Do Not Provide an Unfair Advantage to Slesinger in this Case

The documents at issue do not provide an unfair advantage to Slesinger in this case. In the state case, Disney's counsel, Daniel Petrocelli, was candid that it was not important if the documents were helpful to Slesinger:

> But that is another important principle here, Your Honor, because as you will hear from me when I get into the termination cases, **it is not about the content of the documents taken**. It is about the conduct. **Whether or not the plaintiff should be sanctioned doesn't depend on whether they got good or lousy documents**. If they broke laws, if they trespassed, if they went into locations that they were not supposed to, if they conducted a clandestine operation into the heart of their opponent in this case, outside of the civil discovery process, that's the end of the game. It's about the conduct.

Declaration of Andrew D. Skale ("Skale Decl.") ¶ 3, Exhibit ("Ex.") A (emphasis added). The lack of benefit provided by the documents was confirmed by the declarations of Slesinger attorneys in the state case, who explained why the documents had little value even in the state case. Skale Decl. ¶¶ 4-7, Exs. B, C, D, E.

On top of that, there are different issues involved in the two cases – including copyright and trademark and a scheme between Disney and the Milne parties. The information claimed by Disney to be "confidential" has in fact already been disclosed to Slesinger. There is nothing in the documents relating to the interpretation of the 1983 Agreement that is relevant to this case.

Slesinger urges the Court to review each of the documents that Disney specifically references in its SOB. The review will confirm that the documents provide no unfair advantage to Slesinger in this litigation. **The Court need not wade through the record and consider any documents which were <u>not</u> discussed in Disney's supplemental motion**. *See Orr v. Bank of America*, 285 F.3d 764, 774-775 (9th Cir. 2002) citing *Huey v. UPS, Inc.,* 165 F.3d 1084, 1085 (7th Cir. 1999) ("Judges need not paw over the files without assistance from the parties.") [5/]

a. Disney's Five Exemplary Documents Fail to Show Any "Taint" in this Case

Disney relies on five documents it claims allegedly show taint: (1) a document concerning discussions with the Milne parties regarding a Pooh ride (*Id.* ¶ 8, Ex. F) and documents concerning Tokyo Disneyland (*id.*); (2) "Suit Overview" (*Id.* ¶ 9, Ex. G); (3) "Attorney Memorandum"(*Id.* ¶ 10, Ex. H);

---

[5] For example, while Disney refers to other documents, such as the Patterson Memo and a 2002 file, it has not even tried to show a nexus between those documents and any unfair advantage to Slesinger in this case. Therefore, they cannot serve as the basis for any sanctions in this case. It would be unfair and a violation of Slesinger's rights for Disney to discuss documents in its reply which were not discussed in its SOB, since Slesinger has no opportunity to respond.

(4) "Interrogatory Tables" (*Id.* ¶ 11, Ex. I); and (5) "Restricted Items List" ((*Id.* ¶ 12, Ex. J). (*See also* McCoy Decision at 8-12.)[6/]

A review of the documents shows that nothing in them "taints" the case now, or provides an unfair advantage to Slesinger.[7/] In May 2003, Bret Fausett, then a partner with Hancock, Rothert & Bunshoft LLP, Slesinger's trial counsel, submitted a declaration in support of Slesinger's Motion for a New Trial (Skale Decl. ¶ 4, Ex. B). He described why the documents did not provide any unfair advantage to Slesinger in the state case. *Id.* (*See, also,* Skale Decl. ¶¶ 5-7, Exs. C, D, E). The documents are similarly unhelpful in this case:[8/]

i. Tokyo Ride and Negotiations with Milne

Disney complains in two separate places of documents from the early 1990s concerning a ride at Tokyo Disneyland (SOB at 9:19-26; 10:11:15-19), but the documents provide no unfair advantage. Skale Decl. 8, Ex. F. First, Disney produced many of ***the very same documents*** it complains of in its motion ***in discovery***. Disney "Hearing Ex." 574 from the "garbage" production is the exact same document produced by Peter Nolan of Disney, Bates-stamped PFN 0068, 0070. And, "Hearing Ex." 575 is the exact same document produced by Peter Nolan Bates-stamped PFN 0078-79. Skale Decl. ¶ 14, Ex. L. Second, Disney produced detailed discussions it had with Milne regarding this ride. *Id.* ¶ 15, Ex.

---

6 Slesinger adopts the same terminology used by Disney and the state courts, although the titles do not accurately reflect the contents of the documents.

7 These documents were generated between 1991 and 1993. Documents become stale with the passage of time. *See e.g. In re Bank One Securities Litig.*, 222 F.R.D. 582, 592 (N.D. Ill. 2004); *In re Coordinated Pretrial Proceedings*, 101 F.R.D. 34, 39 (C.D. Cal. 1984).

8 Disney tries to make an issue of the fact that some documents were stamped "Confidential" while other versions were not. The history of the case shows, however, that there was poor document control over documents that were produced. For example, Disney itself produced the same document with one copy having a "Confidential" stamp, the other not. *Eg.* Skale Decl. ¶ 13, Ex. K. Disney cannot complain when its own documents both do and do not contain a confidential stamp. The lack of confidential stamps on documents is simply irrelevant to any benefit the documents provide in this case.

M. In fact, numerous draft agreements about this ride between Milne and Disney were produced by Disney. *Id.* Third, in 1993, the ride was put on hold and when, in 1997, the discussions were revived, Disney produced documents about those discussions. *Id.* Disney has also produced the final agreement to Slesinger. *Id.* There is nothing in Ex. F (Hearing Exs. 572-580) that was not in documents Disney independently produced. Accordingly, no unfair advantage can be gained by Slesinger from the documents.

ii. "Suit Overview"

Disney also discusses a document referred to as "Suit Overview" (Skale Decl. Ex. G), but once again does not explain how that document contains any information that assists Slesinger or affects this case. First, this document is eight pages of at least a 20-page document (as one of the pages has the page number 20 on it) and it appears to be a draft. Second, the document is mostly blank. Third, it concerns the videocassette issue in the state case and dates back approximately 15 years. Fourth, it contains no analysis and repeats positions taken in the litigation, and therefore cannot provide Slesinger with an unfair advantage in this case. Fifth, the parties had significant motion practice on the issues and their settlement discussions went far beyond the claims in the state case. Most importantly, the Court of Appeal in its ***publicly*** available opinion quoted the probability analysis in the document – what Disney claims was the most sensitive part. *Slesinger*, 155 Cal.App.4th at 749, n.6. Tellingly, Disney never sought to have the information redacted prior to the opinion's publication.

While Disney claims in its SOB that Slesinger will "reap impermissible tactical benefits" (SOB at 9:14-18) from studying Disney's long-ago evaluations of likelihood of success in a different case, Disney provides no analysis to prove its contention. Slesinger urges that the Court review the actual document itself, to make its own determination. The only conclusion is that the document provides no unfair advantage to Slesinger which affects the rightful decision of this case.

iii. "Attorney Memorandum"

Disney argues that a 1993 document described as the "Attorney Memorandum" analyzes the meaning of the term "merchandise," which Disney says is "at the core of Slesinger's counterclaims..." SOB at 8:19-26. A review of the document shows that it is a single page document of a memo by Kathy Fuller, providing a brief definition of merchandising (per the industry consensus; no mention of the meaning from the 1983 Agreement), that certain documents requested do not fall into the definition, that the company is divided into different business sections, and the manner in which Disney pays royalties and residuals on videocassettes. Skale Decl. ¶ 10, Ex. H. Disney disclosed this same information in the state litigation so the memo provides no additional information providing an unfair advantage to Slesinger. This same definition was used publicly by Peter Nolan in a November 11, 1997 telex to Michael Brown, attached to Exs. B and C of the Skale Decl. ¶¶ 4(ii), 5. Moreover, Disney made this same position very clear to Slesinger, outside of this document, in its June 16, 1998 Motion for Summary Adjudication re: Videocassettes. Skale Decl. ¶ 16, Ex. N.

iv. "Interrogatory Tables"

Disney refers to a 1993 document it calls "Interrogatory Tables" (Skale Decl. ¶ 11, Ex. I), but it does not, and cannot, show how any information contained in the document provides any non-disclosed information to Slesinger. The tables contain licensing information which Disney was obligated to turn over during discovery rather than any analysis of specific contracts. The information, such as name, date, term, is all found in the actual licenses and royalty reports, which Disney was ordered to produce. Justice Eagleson's Orders 1 and 2, attached to Request for Judicial Notice ("RJN"), Exs. A and B; Skale Decl. ¶ 17, Ex. O; Ex. B [Fausett Decl. ¶ 7]).

Furthermore, all of the referenced licenses for the 11 mentioned licensees in the tables have been expired for over a decade and the document only pertains to

Belgium, Netherlands, and Luxembourg. Certainly, none of this stale data creates an unfair advantage to Slesinger or prejudices Disney.

v. "Restricted Items List" [9]

The document Disney refers to as the "Restricted Items List" ("RIL") is, like the so-called Interrogatory Tables, merely a summary of license agreements. Skale Decl. ¶ 12, Ex. J. Like the other documents, this 1993 information provides no unfair benefit to Slesinger in this lawsuit. Approximately 70 licenses are summarized in the document – yet only about 17 deal with Winnie-the-Pooh and all of those licenses are now expired. Hence, this information has no relevance now. Further, like the Interrogatory Tables, Disney was ordered to produce this information. RJN Exs. A and B. [Judge Eagleson Orders 1 & 2]. Disney provided Slesinger with copies and/or access to Disney's underlying licenses and royalty statements as early as 1981, in keeping with Slesinger's audit right to this information under the parties' agreement (Skale Decl. ¶ 18, Ex. P), as well as in discovery. For example, the Sears Agreement, which is mentioned in the RIL, is an agreement Slesinger has had since the 1980s. Ex. P. In addition, while Disney states the document is a legal department document, it does not claim that the lists are protected by the attorney-client or work product privilege.[10] Finally, as to the pages dealing with corporate sponsorship, the information simply states where one can find corporate sponsors in Disney's parks – the exact same information one finds on a Disneyland map or by simply walking around the park. (See, *e.g.*, the

---

[9] The document is called "restricted" not because it is intended for a restricted audience but rather because it lists various restrictions on the licenses.

[10] Even if a lawyer prepares a document, it does not necessarily mean the document is privileged. "A party seeking to withhold discovery based upon the attorney-client privilege must prove that all of the communications it seeks to protect were made primarily for the purpose of generating legal advice." *See Griffith v. Davis,* 161 F.R.D. 687 (C.D.Cal. 1995) quoting *McCaugherty v. Siffermann*, 132 F.R.D. 234, 238 (N.D.Cal. 1990). *See also U.S. v. Walker*, 2007 WL 1743273 at p* 1-2 (2nd Cir. June 18, 2007) (170 contract summaries not privileged and reveal no "defense strategy"). A document that serves primarily business purposes is not primarily for the purpose of legal advice. *See McCaugherty*,132 F.R.D. 234, 238.

"Souvenir Guidebook," attached to Skale Decl. Ex. B.) For example, the document says Dole Food Company sponsors the Enchanted Tiki Room at Disneyland; this sponsorship is clear to any visitor to the park – the idea of a sponsorship is to let the public know of the relationship. See Skale Decl. Ex. J at Bates number SSI-X 11787. There is no specification by Disney of how Slesinger could use this document to its advantage, the document contains no analysis[11/], and thus there is no unfair benefit to Slesinger.[12/]

While Disney also refers to other documents, SOB at 7:7-8:10, it provides no facts showing that these documents are relevant to this case or provide an unfair advantage to Slesinger; its arguments should be disregarded by the Court. In summary, the documents provide no unfair advantage to Slesinger in this litigation.

b. *The Remainder of Disney's Citations Fail to Show any Unfair Advantage to Slesinger*

Further, Disney's other cited documents are also the types of documents Disney had to produce in discovery, if requested. Disney does not even try to

---

11 Disney makes many arguments regarding alleged alterations to documents. These arguments are irrelevant here because, once again, the argument goes to conduct, not unfair advantage. Also, a review of the documents shows that it is not at all clear that documents were "altered" rather than being different versions of the same documents. For example, Slesinger only had eight pages of the at least 20 page "Suit Overview" document; Slesinger never had the cover. One version of the RIL has a colored box that would have been nearly impossible to remove as Disney suggests. Exs. 539, 541. Further it makes no sense that Slesinger would produce the so-called unchanged versions a month before producing the alleged changed versions. Slesinger urges, that if this issue becomes relevant, that the Court order Disney's originals of the documents be produced so that they can be reviewed by the Court (something no court has done).

12 The fact that Disney considers the document confidential does not mean that it does not need to be produced in litigation. Parties are entitled to discover from each other "any matter, not privileged, which is relevant to the subject matter involved in the pending action . . ." Fed.R.Civ. P. 26(b)(1). To the extent that certain of these documents are sensitive or confidential and should not be disseminated beyond the scope of the litigation, the parties may designate them as such pursuant to the terms of a protective order. *See Foltz v. State Farm Mut. Auto. Ins., Co.* 331 F.3d 1122, 1130 (9th Cir 2003); Fed.R.Civ.P. 26(c).

argue otherwise. In fact, Disney was ordered by Justice Eagleson, the Discovery Referee, to produce such documents. RJN Exs. A and B. On March 10, 1992, Justice Eagleson ordered the following documents produced:

- "a list that will reflect all foreign and domestic licensees of Pooh merchandise" (¶3);
- "licensees of foreign subsidiaries selling Winnie the Pooh products" (¶4);

RJN Ex. 1. On August 26, 1996, Justice Eagleson's Order 2 to Disney included:

1. "commercial agreements relating to the Pooh works.... (¶2);
2. "royalty reports and/or other documents or information showing the gross sums received by the Disney entity" (¶2);
3. "license agreements relating to the Pooh works...royalty reports and/or other documents or information showing the gross sums received by Disney..."(¶3);
4. "license agreements relating to the Pooh works...royalty reports and/or other documents or information showing the gross sums received by Disney from its third party licensees as a result (¶4);
5. "a list of Pooh merchandise manufactured or offered for sale by Disney entities... [and] third party licensees, [and] Disney shall make reasonable efforts to obtain a list of the Pooh merchandise manufactured or offered for sale by those third party licensees" (¶9);
6. "the identity of each document used to prepare the royalty reports, the entity that produced such documents, and the licensees whose information was used to prepare the royalty reports...how often such reports were generated, the computer program or system used to generate such reports" (¶12).

It is axiomatic that there can be no claim of unfair advantage to Slesinger based on the knowledge obtained from documents that Justice Eagleson ordered produced. As the law recognizes, "[e]vidence otherwise inadmissible becomes usable…upon a showing that if it [had] not been improperly secured as it was, the [opposing party] would nevertheless 'inevitably' have obtained it in a 'legitimate'

LAW OFFICES
COTCHETT,
PITRE &
MCCARTHY

manner." 1 *McCormick on Evidence*, Section 181 (6th Ed.). This rule, known as the inevitable discovery rule, applies here.

c. *Disney Fails to Show that Slesinger Still Possesses any Document that was Not Produced in the State Case*

In the state case, the parties engaged in extensive discovery concerning Slesinger's actions, including 27 depositions and production of documents. *See e.g.* SOB 20:16. Disney now implies, without evidence, that Slesinger "may" still possess documents that were not produced in the state case. SOB 6. Slesinger denies this allegation. See, *e.g.,* Skale Decl. ¶¶ 5, 19, Exs. C, Q. Cases are not terminated or sanctions awarded based on "may." Disney, by its own admission, has had three years of discovery on this issue. SOB 20:16. They have found nothing because there is nothing. Slesinger does not have any such information. Skale Decl. ¶ 20, Ex. R. Pati Slesinger turned over all documents to her attorneys. *Id.* Only Disney knows what other documents it has or had regarding this litigation–yet it is unable to identify even one document it believes Slesinger "may" have which gives Slesinger an unfair advantage. The Court cannot rest its decision on speculative evidence. *Reed v. Great Lakes Companies, Inc.*, 330 F.3d 931, 937 (7th Cir. 2003); *see also, Southern Pacific Transp. Co. v. Interstate Commerce Com*., 871 F.2d 838, 840 (9th Cir. 1989).

2. <u>Disney's Wrongful Conduct</u>

In determining any unfair advantage to Slesinger and prejudice to Disney, the Court should also look at Disney's conduct in the state case since it is improper to penalize by dismissal only one party when the other party engaged in sanctionable behavior.[13/] *Dahl v. City of Huntington Beach*, 84 F.3d 363, 367 (9th Cir. 1996) (dismissal was improper because it "penalized only one of two parties guilty of discovery abuses."). Disney engaged in the destruction of documents

---

13 If the Court is inclined to consider a terminating sanction, Slesinger respectfully requests that the Court schedule a motion for terminating sanctions against Disney for Disney's wrongful conduct. The information provided here are only examples of Disney's wrongful conduct.

which injured Slesinger, as found by Judge Ernest Hiroshige of the Los Angeles Superior Court, after he conducted a series of hearings. Order of June 16, 2000 ("Order 1" attached to RJN as Ex. C), and August 17, 2001 ("Order 2" attached to RJN as Ex. D). The document destruction was the responsibility of Edward Nowak, who has been in charge of the litigation for Disney since its inception. The destruction occurred for years and included files belonging to Vince Jefferds, a Disney senior vice president and principal representative and negotiator of the 1983 Agreement between Disney and Slesinger and hundreds of thousands of pages of other relevant documents.[14/]

Judge Hiroshige found that Disney misused the pretrial discovery process by destroying evidence it knew or should have known was sought by Slesinger, making false, evasive, and frivolous discovery responses to Slesinger's discovery, and unduly delaying notification about the destruction. Order 1, 10:9-10, 16:24-28, 20:22-27; Order 2 at p.2, ¶1. The Court found that Disney "engaged in a misuse of the discovery process for its destruction of relevant evidence, bad faith second and third supplemental responses to Slesinger's First Set of Request for Admissions and form interrogatories and failure to timely disclose the destruction. Critically, Jefferds' files were destroyed after Disney began searching for relevant evidence to this litigation, including purported searches for Jefferds' files with the RMD [Disney's Record Management Department]." Order 1, 15:7-13 (bracketed material added). Disney lied to Slesinger about the document destruction. Skale Decl. ¶ 21, Ex. S.

Judge Hiroshige's Order further points out that "the [Disney] legal department apparently did not believe it important to issue a memorandum or any

---

[14] While Disney argues that it was deprived of testimony from Jefferds and other witnesses because of Slesinger's actions (SOB15:12-22), it cannot claim it did not know of the relevance of Jefferds and other Disney personnel who negotiated the 1983 Agreement at the time the lawsuit was filed (1991) and that it did not have the opportunity to interview them as soon as the litigation was filed.

other type of written notification ...that Jefferds' files should be retained." Order 1, 16:14-18 (bracketed material added).

Judge Hiroshige found that the scope of Disney's acts might never be known: "[I]t is likely that no one will ever discover the relevance or importance of the destroyed documents. It is possible that the indices describing what documents were destroyed were themselves inaccurate. As Disney is the party responsible for the destruction of these documents, it cannot seriously claim that it should escape unpunished." Order No. 1, 12:10-16; *see also* Order 1 at 19:15-17, 19:21-22.

As a result, Judge Hiroshige concluded that "a jury could conclude that Disney's destruction of Jefferds' files was done willfully or that Disney willfully suppressed evidence." Order 1, 17:10-21. Judge Hiroshige then issued sanctions, including the giving of the jury instruction (then BAJI 2.03) regarding suppression of evidence, and preclusion of certain evidence by Disney. Order 1, 20:1–21:11.

Disney not only destroyed documents relating to Jefferds; it also destroyed numerous other documents and files of others, then engaged in a systematic effort to try to hide its destruction. Skale Decl. ¶ 22, Ex. T. Disney's willful destruction of documents should not be ignored by the Court.

In addition, Disney made misrepresentations to the state court about its negotiations with the Milne Trust. In a June 2, 2000 order, Judge Hiroshige denied Slesinger's objection to the Discovery Referee's Report No. 18. RJN Ex. E. In Report No. 18, the Referee denied Slesinger's discovery request of Disney's pending negotiations with the Milne Trust on grounds that "the discovery sought was irrelevant to this litigation" because, based on Disney's representations, it was only seeking to purchase certain copyrights licensed by the Milne Trust to Disney. (Order, pp.1-2). Slesinger's fears were realized shortly thereafter, when it became clear that Disney was indeed attempting to induce the Milne termination notices.

Since Disney comes to the Court with unclean hands, the Court should not ignore this conduct and sanction Slesinger while creating a windfall to Disney. The fundamental rules of equity are that "he who seeks equity must do equity" and "he who comes into equity must come with clean hands." 13 Witkin, *Summary of California Law* (10th Ed. 2005), "Equity," §§ 6, 9, pp. 286, 289; *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945). The principles require that if the Court is going to consider Slesinger's conduct, it also consider Disney's conduct. *See also Dahl*, 84 F.3d at 367. Since there are entirely new claims, such as copyright and trademark in this case, it would be inequitable for courts to continue to punish Slesinger and allow Disney to escape any sanction at all.

3. Disney Overstates the State Court Findings About Slesinger's Conduct

Disney's brief is full of exaggerations and contentions without evidentiary support about the conduct of Slesinger's principals, Patricia Slesinger, Shirley Slesinger Lasswell and David Benston, rather than making "explicit reference" to the evidence as the Court requested.[15/] Moreover, by providing the Court with nine boxes of documents, it has buried the documents rather than make them easy for the Court to locate and review for itself. Two areas of exaggeration are explained here, but there are many others that Slesinger will bring to the Court's attention should additional information be needed by the Court.

First, it was Slesinger's former lawyers, not Slesinger's principals, who guided the state case, including deciding to hire a private investigator, and control the motion practice, discovery and disclosures about the documents in question. In 1992, Morgan, Wenzel & McNicholas hired a licensed private investigative agency who used Terry Sands to lawfully seek evidence related to Disney's

---

15 Any information allegedly learned by Mrs. Lasswell is irrelevant as this beloved matriarch died on July 19, 2007.

LAW OFFICES
COTCHETT, PITRE & MCCARTHY

exploitation of Pooh. Skale Decl. ¶ 23, Ex. U; ¶ 24, Ex. V. Slesinger's counsel believed the searches were lawful. Ex. C. Sands turned over the results of his investigation to the law firm. Ex. U. Over the years the documents were transferred to successive law firms: Manatt Phelps & Phillips (1995); McCaimbridge Deixler & Marmaro and its successor Proskauer Rose LLP (1997); Greenberg Glusker Fields Claman Machtinger & Kinsella (2000). See, *e.g.,* Skale Decl ¶¶ 25-28, Exs. W; Ex. X; Ex. Y; Ex. Z.[16/] Judge McCoy criticized the lawyer's actions, but decided he could not disqualify counsel as an alternative sanction because the attorneys involved in obtaining the documents were no longer involved in the case and "SSI's recently retained counsel have not done anything to warrant disqualification. . . ." McCoy Order at 27.

This case has new counsel (Cotchett, Pitre & McCarthy and Mintz Levin Cohn Ferris Glovsky & Popeo, P.C.), who also were not involved in the state case. While Judge McCoy held Slesinger responsible for the acts of its agents, even if those acts were contrary to Slesinger's (*i.e.*, attorneys and principals) explicit instructions, and found that Slesinger (*i.e.*, attorneys and principals) failed to adequately supervise the investigation, McCoy Decision at 11, these acts do not show misconduct by Slesinger's principals which could serve as a basis for terminating sanctions in this case. Moreover, Slesinger has not violated any Court orders, nor has there even been a suggestion that Slesinger lied or misled the Court in this case in any way.

Second, while Disney claims that the evidence shows a scheme of stealing documents from Disney offices and a secured trash facility, at most and taking all evidence in favor of Disney, the evidence describes one entry into a Disney office (which evidence was a **hearsay** Disney memorandum of an anonymous telephone call) and one entry into a disposal site, with the rest coming from Disney's outside trash containers (that Slesinger's lawyers had told Slesinger's principals was

---

16 Slesinger changed firms for reasons totally unrelated to the issues here.

legal). *See, e.g.* Ex. C (Ex. J to Fields Declaration); McCoy Decision at 8. Both the anonymous caller (Dale Holman Sr.) and Terry Sands testified that they did not go into Disney offices. Skale Decl. Ex. U, ¶ 23; Ex. AA, ¶ 29 (Holman Sr. Dep. 11:6–15:24). Disney's own evidence contradicts their claims. Disney's comprehensive internal investigation found no evidence of any break-in or any documents missing. Skale Decl. Ex. BB ¶ 30 (Nowak Decl.). Disney has never provided a declaration from any Disney personnel stating that documents were taken from his or her office. Disney also never explained why it did not contact Slesinger's counsel in 1994, the date of the internal investigation, notwithstanding that the memo identified David Benston (with different spellings) and the litigation. As to the disposal site, the only evidence was a declaration from Dale Holman, Jr. who was 12 years old at the time (SOB Ex. K 66-69, Vol. 14) and that evidence was contradicted by the President of the disposal site, Golden State Fibers ("GSF"), stating that based upon the security systems in place, "it would have been virtually impossible for anyone to enter our property without being admitted by GSF." Skale Decl. ¶ 31, Ex. CC, Collett Supp. Dec., ¶ 4 (Ex. M, Vol. 29, beg. 022938).

D. THE PUBLIC POLICY FAVORING DISPOSITION OF CASES ON THEIR MERITS

There is a strong public policy of favoring disposition of cases on their merits. *Chrysler Corp. v. Carey*, 186 F.3d 1016, 1020 (8^{th} Cir. 1999). This is an important case involving issues of copyright, trademark and obligations that a giant corporation owes to a small licensor involving one of the most beloved characters in the world, Winnie-the-Pooh. This case involves numerous issues which Disney even admits were not part of the state case (like copyright and trademark rights). As to the breach of contract claims, these claims are also different as they assert new claims, such as involving items not part of the state case, and involving different time periods. *See* Slesinger's Opposition to Motion for Summary Judgment at 15:4-20:16 for a more detailed description of the differences between the state claims and federal claims. Since there is an **ongoing relationship** between Slesinger and Disney, an order terminating all of the case could be interpreted to mean that Slesinger could never sue Disney again for any breaches of the Agreement or other wrongful conduct by Disney. However, even Disney admits that the state court judgment cannot be used by Disney as a permanent bar to all Slesinger's rights to seek redress for new breaches or wrongful conduct. *Nakash v. Superior Court*, 196 Cal.App.3d 59, 69, 241 Cal.Rptr. 578 (1988), Disney Motion for Summary Judgment 19:24-26, Reply 6:13-14. Slesinger continues to have the right to sue on successive claims based upon the 1983 Agreement. Code Civ. Pro. § 1047; *Yates v. Kuhl*, 130 Cal.App.2d 536, 540, 279 P.2d 563 (1955). See Slesinger's Opposition to the Motion for Summary Judgment at 15:4–16:7.

Even if termination is appropriate, which it is not, it should not affect Slesinger's new claims related to copyright, trademark, unfair competition, and Disney's scheme with the Milne parties, nor where Disney has admitted to accounting errors in the royalty payments to Slesinger and other admitted breaches of the 1983 Agreement.

E. <u>THE AVAILABILITY OF LESS DRASTIC SANCTIONS</u>

The failure of a court to consider sanctions less drastic than dismissal is fatal. *United States ex rel. Lujan v. Hughes Aircraft Co.*, 67 F.3d 242, 247-248 (9th Cir. 1995) citing *Halaco Engineering Co. v. Costle*, 843 F.2d 376, 380-381 (9th Cir. 1988). ("We need not address all of these factors, because the district court failed to explicitly consider the possibility of lesser sanctions. To satisfy this requirement, the district court had to provide a reasonable explanation of possible and meaningful alternatives. Failure to explicitly consider less drastic sanctions is a fatal flaw in the district court's decision to dismiss as a sanction, and consequently, its decision cannot be viewed as a proper exercise of its inherent power to dismiss as a sanction.") (citations and footnote omitted); *see also In re*

Rubin, 769 F.2d 611, 617 (9th Cir. 1985) (the trial court should consider lesser sanctions before imposing dismissal or default (analyzing dismissal under F.R.Civ.P. 37(b))); *Columbia Pictures, Inc. v. Bunnell*, 2007 U.S. District Lexis 96360, *23 (C.D. Cal. Dec. 13, 2007) ("Recognizing that terminating sanctions are an extreme measure, only to be imposed if no lesser sanctions would serve,. . .").

This Court has recognized exclusion of evidence as an appropriate alternative sanction to the harsh sanction of dismissal. *Columbia Pictures, Inc. v. Bunnell*, 2007 U.S. Dist. Lexis 96360, * 23-24 (C.D. Cal. Dec. 13, 2007) (considering exclusion sanction as alternative inherent power sanction). Exclusion is especially the lesser and appropriate sanction where documents, mental impressions or information have been improperly acquired. *See Lewis v. Telephone Employees Credit Union*, 87 F.3d 1537, 1558-59 (9th Cir. 1996) (approving use of exclusion sanction under court's inherent power for improper *ex parte* contact with other side, but finding district court's sanction an abuse of discretion because it was not "carefully fashioned" to deny the party "the fruits of its misconduct" while not "unduly interefer[ing] with the plaintiff's ability to produce relevant evidence"); *Fasion v. Thornton*, 863 F.Supp. 1204, 1215-17 (D. Nev. 1993) (using exclusion as appropriate inherent power sanction; finding itself in keeping with line of cases in which improper *ex parte* communications with opponent's employees "generated statements and mental impressions from adverse parties").

Here, if the Court believes after the proper motion is brought that any sanctions are appropriate, either against Slesinger or Disney (*e.g.,* for the conduct which resulted in Judge Hiroshige's orders), there is a wide range of sanctions from which the Court can narrowly tailor an appropriate sanction, short of dismissal:

- The Court could review each of the documents explicitly referenced by Disney. If the Court finds that any of the documents provide an unfair advantage to Slesinger, the Court could preclude Slesinger's use of them.

- The Court could require that Slesinger and/or Disney only introduce documents that were produced by the other side in the litigation or documents provided by the offering party, but only based upon a showing of how and where the document was obtained, if challenged.
- If the Court finds that any of Slesinger's or Disney's principals are not trustworthy witnesses in this case, it could craft an appropriate jury instruction.
- The Court could preclude Slesinger and/or Disney from raising certain issues where the Court finds Slesinger and/or Disney obtained an unfair advantage.
- The Court could give jury instructions on any issue where it believes that Slesinger and/or Disney obtained an unfair advantage.
- The Court could prohibit any party from introducing extrinsic evidence about the meaning of the 1983 Agreement.
- The Court could impose monetary sanctions.
- The Court could reserve ruling on any motion for sanctions.

V. <u>CONCLUSION</u>

For the reasons set forth above, and good cause, the Court should find that there is no reason for this case to be dismissed or any sanctions imposed, deny Disney's motion for summary judgment, and permit the case to proceed on the merits.

Dated: July 28, 2008

COTCHETT, PITRE & McCARTHY

By: /s/ Nancy L. Fineman
NANCY L. FINEMAN

MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO, P.C.

By: /s/ Harvey Saferstein
HARVEY SAFERSTEIN
Attorneys for Defendant and Counter-Claimant Stephen Slesinger, Inc.

LAW OFFICES
COTCHETT, PITRE & MCCARTHY

EXHIBIT G

DANIEL M. PETROCELLI (S.B. #97802)
dpetrocelli@omm.com
ALAN RADER (S.B. #45789)
arader@omm.com
VICTOR JIH (S.B. #186515)
vjih@omm.com
JUSTIN M. GOLDSTEIN (S.B. #198858)
jgoldstein@omm.com
O'MELVENY & MYERS LLP
1999 Avenue of the Stars, 7th Floor
Los Angeles, CA 90067-6035
Telephone: (310) 553-6700
Facsimile: (310) 246-6779

Attorneys for Counter-Defendants
DISNEY ENTERPRISES, INC., THE WALT DISNEY COMPANY, and WALT DISNEY PRODUCTIONS

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

CLARE MILNE, an individual, by and through MICHAEL JOSEPH COYNE, her RECEIVER, and DISNEY ENTERPRISES, INC.

Plaintiffs,

v.

STEPHEN SLESINGER, INC.,

Defendant.

STEPHEN SLESINGER, INC.,

Counter-Claimant,

v.

DISNEY ENTERPRISES, INC.; THE WALT DISNEY COMPANY; and WALT DISNEY PRODUCTIONS,

Counter-Defendants.

Case No. CV-02-08508 FMC (PLAx)

DISNEY'S REPLY BRIEF RE: PRECLUSION AND TERMINATING SANCTIONS

The Hon. Florence-Marie Cooper

Date: September 8, 2008
Time: 10:00 a.m.
Place: Courtroom 750

I. INTRODUCTION.

This Court asked the parties to address how the state court findings "affect the ongoing validity of the claims remaining." In response, Disney demonstrated that those findings bar SSI's claims because, like its state court claims, they all turn on interpretation of the parties' 1983 Agreement. SSI's Opposition does not challenge that controlling proposition.

Instead, SSI argues that because its misconduct occurred in another court, the findings have no collateral estoppel effect and provide no basis for exercise of this Court's inherent power to terminate. Collateral estoppel *exists* to bar relitigation of issues—including the impact of SSI's misconduct—actually litigated and necessarily decided in another court. Similarly, district courts may exercise their inherent power when claims before them are affected by misconduct in another court. Both law and logic dictate that if Disney could not get a fair trial in state court on SSI's claims requiring interpretation of the parties' 1983 Agreement, it cannot get a fair trial on such claims here.

Based on its mistaken contention that preclusion has no application, SSI urges this Court to second-guess the state court findings. For example, SSI disputes the finding that the information in the documents it stole from Disney gave it an unfair advantage. SSI belittles as stale such illicitly obtained information, even though it is as pertinent as ever since the matters in controversy have not changed in 15 years. It offers the discredited testimony of Pati Slesinger to challenge the state court's finding that SSI "likely still possesses" stolen documents. SSI even objects to this Court's adoption of the state court's term "stolen documents." But SSI has no right to a retrial. The state judgment is not just a bump in the road.

II. ALL OF SSI'S COUNTERCLAIMS, LIKE ITS STATE CLAIMS, CONCERN INTERPRETATION OF THE 1983 AGREEMENT.

By its silence on the point, SSI finally concedes that the matters in controversy in its remaining counterclaims share a defining characteristic with the state court claims: they all turn on the scope of the parties' rights and obligations under their 1983 Agreement. SSI's Fourth, Fifth, Sixth, and Seventh Counterclaims are, as this Court stated in its June 3 Order, "coextensive" with SSI's state court claims; consequently, they are barred by both res judicata and collateral estoppel. (*See* Mot. Summ. J. at 8:11-21:12.) It would make a mockery of the state court proceedings were SSI free to pursue those claims in another court.

What SSI terms its "new" infringement and orchestration claims are equally subject to preclusion because—like SSI's "old" contract and fraud claims—they, too, turn on interpretation of the 1983 Agreement:

- *Infringement Claims:* Disney identified three instances where SSI acknowledges that its federal infringement claims hinge on interpretation of the 1983 Agreement. (Supp. Br. at 4-5.) SSI does not dispute that Disney is correct. That is an area the state court found irrevocably tainted.
- *Orchestration Claims:* SSI's unfair competition and other claims based on Disney's supposed orchestration of the Milne heirs' attempt to terminate SSI's copyright interest also require a judicial decision on disputed interpretations of the 1983 Agreement. (Supp. Br. at 5-6.) SSI does not contend otherwise.

III. SSI'S MISCONDUCT DIRECTLY TAINTS ITS CLAIMS HERE.

SSI defends against preclusion by repeating its unsuccessful state court defense. It tells this Court that every Disney document it stole is worthless; discoverable anyhow; and came from a single public dumpster. It says it was unfairly held responsible for its past lawyers' inattention and that Pati Slesinger was truthful when she swore she produced every stolen Disney document. Every one of those assertions was false, as the state court painstakingly determined.

In this Section, Disney will address SSI's false assertion that the documents discussed in Disney's Supplemental Brief for illustrative purposes are the only stolen documents the Court need consider; SSI's mischaracterization of those exemplars; SSI's attempt to relitigate by shifting blame to its prior lawyers and minimizing its own wrongful conduct; and SSI's specious contention that stealing documents is the only misconduct relevant to these proceedings.

A. **SSI Benefited from Thousands of Disney Documents, Known and Unknown.**

As in state court, SSI attempts to shift the burden to Disney to prove each stolen Disney document contains highly relevant, privileged information. (Opp. at 9:15-10:18.) As in state court, Disney has identified a number of such documents. Equally important is that SSI secured—and retains—an unfair advantage by the mere fact of having stolen a huge volume of both privileged and unprivileged Disney documents from targeted witnesses and business units at Disney it knew had relevant information. The Court of Appeal ruled that:

> [T]he proper focus is on the illicitly obtained documents considered *as a whole* . . . the fine distinctions drawn by SSI between useful and useless information carry little weight . . . . SSI learned more than individual pieces of information; it obtained an insight into Disney's confidential approach to the litigation—an insight SSI could use to its advantage in the litigation.

Stephen Slesinger, Inc. v. Walt Disney Co., 155 Cal. App. 4th 736, 771-72 (2007) (emphasis added).

SSI's unfair litigation advantage is actually far greater than what it learned from the 6,400 pages it acknowledged retaining. Although SSI now says it is "speculative" for Disney to talk about additional stolen documents, (Opp. at 17:3-19), SSI *admitted* to destroying an unknown number of documents taken from Disney. (Ex. Z (3/2/04 Hr'g Tr. at 99:11-20, 134:3-14, 135:4-11).) Moreover, the state court *found* that SSI turned over only "a small portion" of what it stole and *found* that SSI "likely still possesses" additional documents. (Ex. A at 2.) SSI's steadfast refusal to return everything it took and disclose all that it learned extends its wrongdoing squarely into this Court. SSI should not be permitted to pursue this litigation while secretly maintaining an untold number of stolen Disney documents.

SSI persists in relying on Pati Slesinger's sanction hearing testimony that "I'm not holding back anything." (Opp. at 17:11-14; Ex. X at 9.) The state court did not believe that testimony. (Ex. A at 2, 27.) It took a "dismal view of the credibility of Pati Slesinger." *Slesinger*, 155 Cal. App. 4th at 773. The state court's finding that Pati Slesinger *did* "hold back" documents has collateral estoppel effect here. *Gottlieb v. Kest*, 141 Cal. App. 4th 110, 148-49 (2006); *Torrey Pines Bank v. Super. Ct.*, 216 Cal. App. 3d 813, 820-22 (1989).[1]

SSI's fallback is to blame Disney for the inability to identify the additional stolen documents and contend that this Court must assume their irrelevance to the 1983 Agreement and SSI's counterclaims. (Opp. at 17:3-19.) The state court rightly rejected such fallacious logic. The contrary inference is the only reasonable one: that SSI would have *withheld* rather than have turned over, the most valuable—and most incriminating—documents. As the state court held:

> To the extent there is any mystery as to how many documents SSI's principals reviewed, how many they discarded, how many they might still possess, and how valuable the information learned might be, the mystery is a direct result of SSI's misconduct. SSI is itself responsible for creating a record in which Disney's proof raised justifiable concerns on these points.

Slesinger, 155 Cal. App. 4th at 774; *see also Nat'l Ass'n of Radiation Survivors v. Turnage*, 115 F.R.D. 543, 557 (N.D. Cal. 1987) ("Where one party wrongfully denies another the evidence necessary to establish a fact in dispute, the court must draw the strongest allowable inferences in favor of the aggrieved party."); *Synanon*

[1] SSI made sure that neither Disney nor any court would ever know the content of those documents. SSI's investigator destroyed his notes, and no one else kept any records of the documents taken, reviewed, retained, or discarded. (Ex. A at 2, 4.) The state court concluded there was only one explanation: "SSI wanted [its investigator's] activities kept secret." (*Id.* at 2.)