Docket Nos. 09-55005 and 09-55633

United States Court of Appeals

FOR THE

Ninth Circuit

ECHOSTAR SATELLITE L.L.C., ECHOSTAR COMMUNICATIONS CORPORATION, ECHOSTAR TECHNOLOGIES CORPORATION, AND NAGRASTAR L.L.C., *PLAINTIFFS-APPELLEES*,

v.

NDS GROUP PLC (N/K/A NDS GROUP LIMITED) AND NDS AMERICAS, INC., *DEFENDANTS-APPELLANTS.*

ECHOSTAR SATELLITE L.L.C., ECHOSTAR COMMUNICATIONS CORPORATION, ECHOSTAR TECHNOLOGIES CORPORATION, AND NAGRASTAR L.L.C., *PLAINTIFFS-APPELLANTS,*

v.

NDS GROUP PLC (N/K/A NDS GROUP LIMITED) AND NDS AMERICAS, INC., *DEFENDANTS-APPELLEES*.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
THE HONORABLE DAVID O. CARTER
CASE NO. SA CV 03-950 DOC (JTLX)

DEFENDANTS-APPELLANTS NDS GROUP LIMITED'S AND NDS AMERICAS, INC.'S PRINCIPAL BRIEF

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Fed. R. App. P. 26.1, Defendants-Appellants NDS Group PLC (n/k/a NDS Group Limited) and NDS Americas, Inc. state as follows:

NDS Americas, Inc. is a wholly-owned subsidiary of NDS Group Limited. NDS Group Limited is owned by funds advised by Permira Advisers LLP and News Corporation. News Corporation, a publicly traded company organized under the laws of the United States, owns 10% or more of the stock of NDS Group Limited.

Dated: August 12, 2009

Respectfully submitted,

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INTRODUCTION

Plaintiffs/Appellees (collectively "EchoStar") brought and prosecuted this action for over five years based on the theory that Defendants/Appellants (collectively "NDS") were responsible for destroying the security system that protected EchoStar's satellite television signal. EchoStar termed this its "single theory of liability." As trial began, EchoStar sought over $2 billion in relief: $184.8 million in actual damages and lost profits, treble damages, over $823 million in disgorgement, at least $1 billion in statutory damages, and sweeping equitable relief. After a month-long trial, the jury rejected EchoStar's theory. It found that NDS was not responsible for the compromise of EchoStar's security system. Instead, the jury found that NDS was liable for a single, technical violation of three statutes, and the jury awarded trivial relief: $45.69 in actual damages and $1,500 in statutory damages, the lowest possible amount. NDS does not appeal that verdict.

Despite NDS's resounding trial victory, the District Court severely limited its award of NDS's fees and costs. After eliminating time spent on unrelated claims on which it did not prevail, NDS sought to recover $23.5 million in fees and approximately $414,000 in taxable costs. The District Court agreed that NDS should be awarded fees. But the District Court awarded NDS fees only for prevailing on claims under the Digital Millennium Copyright Act (DMCA) and the

Racketeer Influenced and Corrupt Organizations Act (RICO), even though NDS had prevailed on numerous other, related claims. The District Court reduced NDS's fees by one-half and then reduced that figure by an additional 25 percent, without properly comparing NDS's requested fees to the excellent results it obtained. The District Court also denied NDS its costs without any explanation. The District Court ultimately awarded NDS attorney's fees of $8,968,118.90.

The reduction of NDS's fee request and the denial of NDS's costs was a serious enough abuse of the District Court's discretion. But it pales in comparison to what happened next. Despite EchoStar's trivial recovery at trial, the District Court awarded EchoStar an astonishing bounty: almost ***$13 million*** in fees—including a ***$5 million "bonus"*** that EchoStar never requested—and over $236,000 in taxable costs. The District Court awarded these extraordinary amounts even though EchoStar did not provide its billing records. The District Court also failed to exclude fees for unrelated claims that were dismissed or rejected by the jury and for work done to represent non-parties. And the District Court failed to reduce EchoStar's fee award to reflect the limited results EchoStar obtained compared to its litigation objectives. Despite the billions it requested, EchoStar secured only 0.000025% of the actual damages and only 0.00015% of the statutory damages it sought. The District Court, however, awarded EchoStar fees of more than $8,000 for every $1 awarded by the jury. The District Court abused its discretion in

making this excessive fees and costs award to EchoStar.

JURISDICTIONAL STATEMENT

EchoStar brought claims against NDS arising under 17 U.S.C. § 1201, 47 U.S.C. § 605, 18 U.S.C. § 2511, 18 U.S.C. § 2512, 18 U.S.C. § 1030, 15 U.S.C. § 1114, 15 U.S.C. § 1125 and 18 U.S.C. § 1962. The District Court had jurisdiction under 28 U.S.C. §§ 1331, 1332(a)(1), 1338 and 1367.

This Court has jurisdiction under 28 U.S.C. § 1291. On December 4, 2008, the District Court (Carter, J.) entered an Order Granting, In Part, Motion To Clarify Permanent Injunction And Granting, In Part, Motions For Attorney's Fees ("Fees Order"). ER0016-27. NDS filed a timely notice of appeal on January 5, 2009. ER0082. Fed. R. App. P. 4(a)(1)(A).

On February 13, 2009, the District Court entered the Joint Final Judgment which corrected, in part, the Fees Order. ER0009-15. On March 26, 2009, the District Court entered an Order Denying Motion To Correct Judgment, which further clarified the Fees Order. ER0006-08. On April 10, 2009, NDS filed a timely amended notice of appeal specifying its appeal of the Fees Order, as amended by the Joint Final Judgment and the Order Denying Motion To Correct Judgment. ER0082. On July 17, 2009, the District Court entered an Order Denying Motions to Retax Costs, which NDS also challenges. ER0001-05. *Cal. Union Ins. Co. v. Am. Diversified Sav. Bank*, 948 F.2d 556, 567 (9th Cir. 1991)

(appeal from judgment incorporates appeal of denial of motion to retax costs).

STATEMENT OF ISSUES

1. Did the District Court err in only awarding NDS fees for prevailing on EchoStar's DMCA and RICO claims when (a) NDS also prevailed on EchoStar's California Penal Code (CPC) claims as a practical matter and (b) all of EchoStar's claims were related to the claims that entitled NDS to fees?

2. Did the District Court err in awarding NDS less than forty percent of the fees it requested for defeating the only theory of liability on which EchoStar sought relief and precluding over 99.999% of the damages EchoStar sought?

3. Did the District Court err in awarding EchoStar $12,972,547.91 in fees after the jury rejected the only theory of liability on which EchoStar sought relief and awarded EchoStar $1,545.69 in damages?

4. Did the District Court err in denying NDS its costs and awarding EchoStar $236,895.93 in costs?

STATEMENT OF THE CASE

EchoStar filed this lawsuit against NDS on June 6, 2003. ER0626-61. In its initial Complaint and five amended Complaints, EchoStar asserted a total of twenty-nine causes of action based on a single theory of liability that NDS conspired to destroy EchoStar's satellite television security system. ER0726-28. EchoStar requested billions of dollars in monetary relief. After extensive motion

practice and discovery, the case was tried to a jury from April to May 2008. The jury returned its verdict on May 13, 2008. ER0117-20. The jury rejected EchoStar's single theory of liability and its demand for billions of dollars. ER0106-16. The jury awarded EchoStar $1,545.69 in actual and statutory damages based on an unrelated, unpled theory of liability. *Id*. On October 15, 2008, the District Court issued Findings of Fact and Conclusions of Law on EchoStar's claim under Cal. Bus. & Prof. Code § 17200. ER0028-43. The District Court granted EchoStar $284.94 in restitution and issued a narrow injunction. *Id*.; ER0009-12.

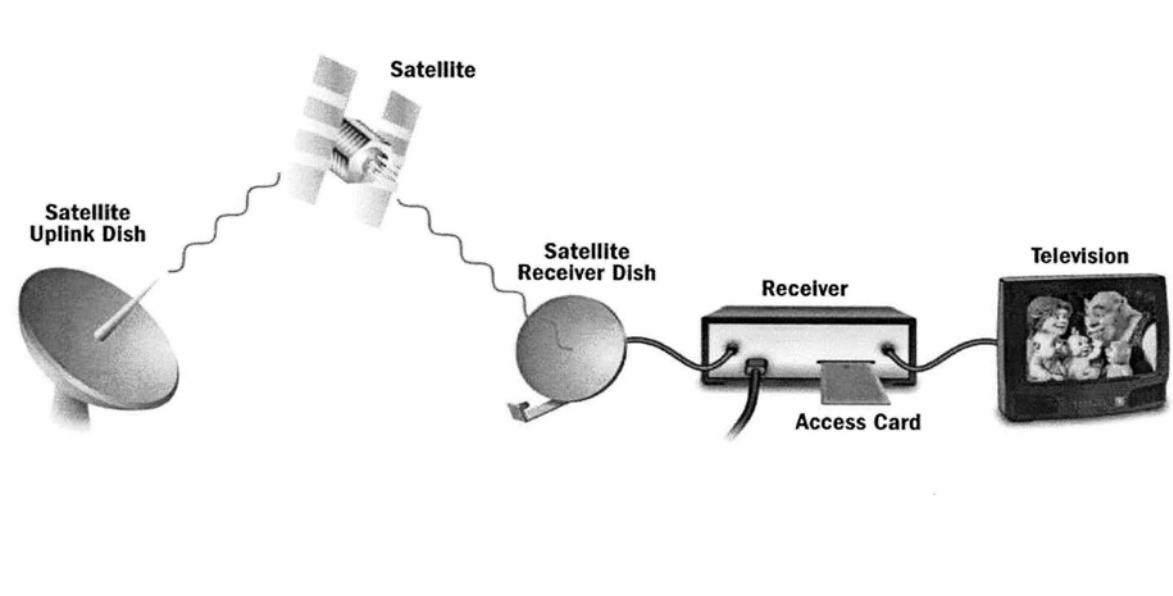
Both parties subsequently moved for attorney's fees and costs. On December 4, 2008, the District Court issued the Fees Order and granted (i) NDS $8,968,118.90 in fees and no costs and (ii) EchoStar $12,972,547.91 in fees plus costs. ER0016-27. NDS filed its notice of appeal on January 5, 2009. ER0082. On February 2, 2009, the District Court entered the Joint Final Judgment. ER0009-15. EchoStar moved to correct the Joint Final Judgment but the District Court denied that motion on March 26, 2009. ER0006-08. On April 10, 2009, NDS filed an amended notice of appeal. ER0081. The court clerk subsequently taxed costs of $236,895.93 against NDS. ER0083. Both parties moved to retax costs but the District Court denied both parties' motions on July 17, 2009. ER0001-05.

STATEMENT OF FACTS

A. The Parties And The Technology At Issue.

This case involves the market for satellite television in the United States and the methods used to prevent unauthorized reception of satellite television programming. A brief description of how subscribers receive satellite television provides important background.

A satellite television provider sends a signal containing programming from a satellite uplink dish to a satellite, which then sends the signal back to Earth. ER0145-46. An outdoor satellite receiver dish receives the satellite signal and then transmits the signal to a receiver located in the subscriber's home. *Id*. The receiver processes the signal and transmits video to the subscriber's television. *Id*. The following diagram illustrates the process of transmitting satellite television signals:



Most satellite television programming is not free. It should be viewed only by subscribers who pay to watch certain channels or who order specific programs on a "pay-per-view" basis. But anyone located in a satellite's geographic coverage area will receive the signal. To prevent unauthorized viewers from seeing the programming, the signal is encrypted before it is sent to the satellite. ER0029. The signals are then decrypted by the receiver using an "access card" that is inserted into the subscriber's receiver, as indicated in the diagram. *Id*. The access card contains a microprocessor that has software and "keys" that allow the receiver to decrypt only the programming the subscriber has purchased. ER0146. The entire system that encrypts and decrypts a provider's satellite programming is called the security system or the conditional access system ("CAS"). ER0029.

Only a few companies provide satellite television programming in the United States. EchoStar operates as a satellite television provider under the name DISH Network. *Id*. Non-party DirecTV is EchoStar's top competitor in the satellite television business in the United States. *Id*.

EchoStar and DirecTV use different CASs to protect their signals. Plaintiff/Appellee Nagrastar L.L.C.—a joint venture between EchoStar Communications Corporation and non-party the Kudelski Group—provides the CAS, including associated access cards, used by EchoStar. *Id*. Defendants/Appellants NDS Group PLC (n/k/a NDS Group Limited) and its

United States subsidiary NDS Americas, Inc. provide the CAS, including associated access cards, to DirecTV. ER0030. NDS Group Limited also provides security systems to many other satellite providers outside the United States.

Although EchoStar and DirecTV each use a CAS to prevent unauthorized viewing of their satellite television programming, both have suffered from such unauthorized viewing—commonly referred to as "piracy"—of their systems. ER0030. Because access cards can be removed from the receiver, they are the focus of pirate activity. But because they can be removed, the CAS provider can also combat piracy by providing replacement cards to its subscribers. Although such replacement is expensive, it is far less expensive than replacing the entire receiver.

Piracy takes many forms. Some piracy arises from commercial pirates who develop technology to hack a CAS and market that technology to the public. Other piracy arises from individuals—often called "hobbyists"—who freely share information they have developed to hack a CAS. The methods of piracy vary. Some piracy depends on reprogramming the provider's legitimate access card. Other piracy depends on additional pirate hardware to replace or augment the legitimate access card. A particular pirate technology typically works against only one CAS, although there have been certain "crossover" technologies that repurpose pirate or legitimate technology for one CAS to be used against another CAS.

NDS has long combated satellite piracy—including working with law enforcement, suing pirates, engaging in undercover operations, and cooperating with other satellite programming providers. ER0030. EchoStar engaged in similar efforts. NDS also conducted reverse engineering to understand and advance the CAS state of the art, and EchoStar's CAS provider engaged in similar efforts. As a further step to fight piracy, people in the satellite security industry obtain technology that allegedly enables piracy. ER0142-43. It is a common industry practice to test such technology to determine whether it actually allows a pirate to receive unauthorized programming. ER0030, ER0032. If so, the CAS provider can work to defeat that technology and/or its source.

B. Substantive Proceedings.

This case arose from EchoStar's allegations that NDS set out to defeat its main competitor in the CAS business—NagraStar—by destroying the effectiveness of the CAS that NagraStar provided EchoStar. ER0629. Over the course of six complaints, twenty-three months of discovery, trial, and post-trial motions, EchoStar relied on a "single theory of liability" for all of its claims against NDS. In EchoStar's own words:

> Plaintiffs proffered a single theory of liability[:] Defendants promulgated a scheme to cause the mass piracy of EchoStar's system by hacking Plaintiff's SmartCard and causing the distribution of pirated cards, with the scheme culminating in the Defendants' posting

> on the Internet the code needed to pirate EchoStar's system.

ER0104. In another post-trial filing, EchoStar reiterated that "all of [its] claims were based on a common core of facts concerning NDS's involvement in the piracy of EchoStar's security system." ER0093.

EchoStar consistently asserted that NDS took two approaches to achieving its goal of destroying EchoStar's CAS. First, NDS and its employee Christopher Tarnovsky allegedly created and controlled a secret network of satellite television pirates who illegally manufactured and distributed reprogrammed EchoStar access cards that allowed people to obtain unauthorized EchoStar programming. Second, NDS allegedly directed Tarnovsky to post on the Internet in December 2000, under the alias "Nipper," information that would allow commercial pirates and end-users to reprogram EchoStar's access cards without the assistance of the supposed NDS distribution network. EchoStar claimed that these actions: caused the creation of pirate access cards that deprived EchoStar of over $90 million in lost profits; forced EchoStar to replace its access cards at a cost of over $90 million; entitled EchoStar to statutory and punitive damages of over $1 billion; and required NDS to disgorge to EchoStar over $800 million.

Ultimately, both judge and jury rejected EchoStar's theory of liability. The jury found only one technical infraction involving the NDS security team's routine, but technically unlawful, testing of a third-party "crossover" pirate program on a

reprogrammed DirecTV access card in an EchoStar receiver.

1. EchoStar's Six Complaints.

The litigation commenced on June 6, 2003, when EchoStar filed its Complaint, which alleged nine causes of action. ER0626-61. All nine causes of action relied on a single theory of liability that included an alleged distribution network for pirated EchoStar access cards facilitated by NDS:

> NDS … essentially cracked Echostar's Security System and w[as or is] facilitating the design, manufacture, assembly, modification, importing, exporting, possessing, distributing, and selling of pirate technology such as altered access cards or other devices or equipment designed or intended to facilitate the reception and decryption of Echostar's encrypted satellite television programming service by persons not authorized to receive such programming.

ER0629. EchoStar further alleged that Tarnovsky was a key component of the scheme "to distribute the cracked Security System in a manner designed to proliferate altered Access Cards that could provide unauthorized users with access to DISH Network programming services." ER0639.

When EchoStar filed its Complaint, Tarnovsky was a part of NDS's anti-piracy efforts. Tarnovsky had been a hacker involved in the piracy of DirecTV's security system in the 1990s. ER0031. NDS convinced him to end his involvement in piracy and hired him to help NDS combat DirecTV piracy. *Id*. Tarnovsky worked undercover for NDS and did research relating to DirecTV

piracy. *Id*.

In response to a motion to dismiss filed by NDS, EchoStar amended its Complaint on October 8, 2003, but it did not change the basic theory supporting its claims. ER0586-625. NDS moved to dismiss EchoStar's First Amended Complaint. The District Court dismissed seven of EchoStar's claims. ER0069-80.

EchoStar filed a Second Amended Complaint ("2AC") on March 19, 2004. ER0946-1122. The 2AC asserted twenty-three causes of action and added twenty-one new individual defendants, each of whom was allegedly part of the conspiracy masterminded by NDS (and each of whom was later either dismissed or defaulted). *Id*.; ER0088; ER0582-85. The 2AC added the second and final sub-part of EchoStar's single theory of liability—the allegation that NDS, in December 2000, posted information on the Internet that allowed pirates to reprogram EchoStar access cards:

> [O]n December 23 and 24, 2000, NDS effectuated and assisted others in effectuating a wide spread compromise of Plaintiffs' conditional access system. On these dates, using the nickname "NiPpeRClauz 00," among others, and under the direction and control of NDS, and with NDS's full knowledge and ratification, Tarnovsky posted a sequence of events and data, along with accompanying instructional code, that provided satellite pirates around the world the "road map" and requisite instructions for the full dump of Plaintiffs' secret EEPROM Code.

ER0956-57. The 2AC further asserted that these postings resulted in "the widespread compromise of Plaintiffs' Security System." *Id*.

NDS filed a motion to dismiss and motion to strike the 2AC. On July 21, 2004, the District Court largely granted NDS's motions. ER0065-68.

EchoStar filed its Third Amended Complaint ("3AC") on August 6, 2004, abandoning one of its previously-filed claims. ER0432-581. NDS filed a motion to dismiss and motion to strike in response. Rather than stand on the 3AC, EchoStar filed the Fourth Amended Complaint ("4AC") on March 30, 2005. ER0297-431. Like its predecessors, the 4AC remained faithful to EchoStar's single theory of liability. ER0308-09, ER0342. NDS moved to dismiss the 4AC and moved to strike several improper allegations. On July 26, 2005, the District Court dismissed five of EchoStar's claims and struck certain of EchoStar's requests for relief. ER0062-64.

After the close of discovery, NDS filed four motions for partial summary judgment. On January 16, 2008, the District Court granted partial summary judgment in NDS's favor on five of EchoStar's claims. ER0941-42.

EchoStar filed its final complaint on January 31, 2008. ER0193-279. The Fifth Amended Complaint ("5AC") contained seven claims, abandoning four claims from the 4AC. *Id*. The 5AC again asserted a single theory of liability based on the same allegations that NDS and Tarnovsky used pirates "to advertise, sale [sic], distribute and otherwise traffick [sic] in unlawfully altered EchoStar access cards" and "[i]n December 2000… published the necessary instructional

codes and related technical information to access Plaintiffs' microprocessor and read/write to same resulting in a wide-spread and uncontrollable public compromise of Plaintiffs' Security System." ER0229-32.

When EchoStar filed the 5AC, NDS had already prevailed on twenty-two claims based on the single theory of liability. Seventeen claims had been dismissed by the District Court. ER0726-28. And an additional five claims had been voluntarily abandoned by EchoStar. *Id*.

2. Discovery.

Discovery commenced in earnest around November 2005 and continued through trial in May 2008. ER0724. Discovery was extensive. Eighty-one witnesses were deposed, requiring nearly 100 days of testimony. ER0725. Depositions occurred in twelve states and in Canada, the U.K., the Netherlands, France, and Switzerland. *Id*. The parties disclosed a total of ten experts. *Id*.

Written discovery was equally extensive. EchoStar propounded eleven sets of document requests (255 requests), eight sets of interrogatories (38 interrogatories), and two sets of requests for admission (385 requests). ER0724. NDS propounded nine sets of document requests (281 requests), five sets of interrogatories (32 interrogatories), and two sets of requests for admission (50 requests). ER0725. The parties produced nearly 350,000 pages of documents. *Id*. The parties also issued more than 110 discovery subpoenas to third-parties, which

produced over 100,000 pages of documents. *Id*.

Almost all discovery concerned EchoStar's single theory of liability. One exception was a series of approximately twenty-five questions asked of Tarnovsky at his deposition concerning what came to be called the "P1 Test." ER0717-21.

Tarnovsky performed the P1 Test as part of his anti-piracy work for NDS. In November 2000, Tarnovsky saw postings on websites showing how to reprogram an obsolete NDS access card for the DirecTV system (called the Period 1 or "P1" card) to obtain EchoStar programming for free. ER0032. Tarnovsky told his supervisor about this claimed "crossover" pirate technology. *Id.* Because this alleged technology involved an NDS card, Tarnovsky, with the supervisor present, tested the website's claims by reprogramming a P1 card and placing it into his personal EchoStar receiver. *Id.* Tarnovsky was able to gain access to all EchoStar programming although he had only a basic subscription. *Id.* Similar tests of alleged piracy devices were common in the satellite industry, and NDS did not deny conducting the P1 Test. *Id.*, ER0122-23.

The P1 Test was unrelated to EchoStar's single theory of liability. It did not involve the alleged distribution network created or controlled by NDS or Tarnovsky, it did not involve reprogrammed EchoStar access cards, and it did not involve the allegedly destructive technology that was posted on the Internet in December 2000. Nor did EchoStar assert the P1 Test as a basis for any claims.

Although summary judgment motions were filed well after Tarnovsky's testimony regarding the P1 Test, EchoStar's single theory of liability remained unchanged:

> EchoStar's claims against Defendants are premised on a two-part anticompetitive scheme orchestrated by Defendants and their hacker-employee Christopher Tarnovsky. The first part of this scheme involved a piracy network established and maintained by Tarnovsky for the purpose of distributing reprogrammed EchoStar access cards. …
>
> The second part of Defendant's unlawful plan involved the wholesale publication of Defendant's hack methodology on various piracy websites in December 2000. These postings provided pirates worldwide with the tools necessary to reprogram their own EchoStar access cards such that they were no longer dependent on the network of dealers established by Tarnovsky …. This publication resulted in the total compromise of EchoStar's security system ….

ER0944. Nor did the 5AC—which was EchoStar's final pleading and was filed months after Tarnovsky's deposition—mention the P1 Test. ER0193-279.

3. Trial And Verdict.

Trial commenced on April 9, 2008, with EchoStar proceeding on six claims: two DMCA claims, two California Penal Code (CPC) claims, a Communications Act claim, and a RICO claim. The list of issues to be tried included in the parties' Joint Pretrial Conference Order made no reference to the P1 Test. ER0856-60.

In its opening statement, EchoStar laid out its single theory of liability.

ER0191. During the next four weeks, the parties presented live and video testimony from forty-one witnesses. ER0726. The District Court accepted 209 exhibits into evidence. *Id.* At closing argument, EchoStar again argued to the jury EchoStar's single theory of liability—that NDS masterminded a distribution network for pirated EchoStar access cards and then posted information on the Internet, all of which led to the destruction of EchoStar's security system:

> So what they did is task [Tarnovsky] to go utilize his friends to create a distribution network.
>
> ***
>
> So what's the answer to whether or not they did it? They hired the satellite pirate, Chris Tarnovsky. We know they hacked our system. They instructed him to create accounts on pirate websites. He posted the hack on the [I]nternet.

ER0137, ER0126.

The P1 Test was not a significant issue at trial. EchoStar asked two witnesses a total of thirty-five questions about the P1 Test and briefly mentioned it in its closing argument. ER0171-73, ER0162-65, ER0149-52, ER0154-57, ER0127-28, ER0138-39. NDS conceded in closing arguments that the P1 Test occurred and was:

> [t]he only evidence that you've heard of the receipt of EchoStar programming by anyone associated with NDS … . One time. Reprogramming of a DirecTV card.

ER0122-23.

EchoStar requested over $1 billion from the jury. EchoStar sought actual

damages and lost profits totaling approximately $184.8 million. ER0129-32. This number was based on two allegations, both premised on EchoStar's single theory of liability: (1) that the December 2000 Internet posting resulted in 100,000 pirated EchoStar access cards causing lost revenues of $90 million; and (2) that destroying EchoStar's CAS forced EchoStar to replace all of its access cards at a cost of over $90 million. *Id.* EchoStar also requested statutory damages of $1 billion, again based on the claim that NDS was responsible for at least 100,000 pirate access cards, each of which constituted a separate violation. ER0133-34. EchoStar sought disgorgement of $828.73 million for revenues earned by NDS from DirecTV, but the District Court ruled before the case was given to the jury that EchoStar was not entitled to disgorgement as a matter of law. ER0048-56.

The jury reached a unanimous verdict on May 13, 2008. ER0118-19. The jury found that NDS was not liable for three of the six claims submitted: (i) DMCA § 1201(a)(1), (ii) DMCA § 1201(b), and (iii) RICO § 1963(c). ER0107-08, ER0113-14. The jury also found that NDS had not (i) acted with oppression, fraud, malice, or recklessness or (ii) engaged in any conspiracy. ER0110, ER0112.

The jury found for EchoStar on three claims but awarded minimal damages. First, the jury found NDS liable for a single violation of Section 605(a) of the Communications Act, awarding actual damages of $45.69—EchoStar's average revenue per subscriber in 2000, the year of the P1 Test—and the minimum

possible statutory damages of $1,000. ER0109, ER0039. Second, the jury found NDS liable under CPC § 593d(a), again awarding actual damages of $45.69. ER0110. Third, the jury found NDS liable under CPC § 593e(b) for a single violation but awarded no actual damages and statutory damages of $500, the minimum possible amount. ER0111.

The jury found EchoStar not liable on NDS's unrelated counterclaim under the California Uniform Trade Secret Act. ER0115. NDS originally brought five counterclaims alleging that EchoStar had misappropriated NDS confidential and trade secret documents. ER0280-96. Three counterclaims were dismissed on summary judgment. ER0934. The fourth counterclaim, under the Computer Fraud and Abuse Act, was abandoned by NDS during the trial.

4. The District Court's Post-Trial Ruling On EchoStar's Section 17200 Claim And Findings Of Fact Regarding The P1 Test.

After trial, the District Court addressed EchoStar's remaining claim under Cal. Bus. & Prof. Code § 17200. EchoStar argued vigorously that the P1 Test could not have been the basis on which the jury found liability because EchoStar had never pursued that theory of liability:

> In the course of the four-week trial, Plaintiffs consistently maintained that Defendants' liability stems from their involvement in the Nipper Post and proffered substantial evidence to support this theory. … The alleged P1 "Test" was an inconsequential fact discussed briefly with few witnesses.

ER0104. At oral argument, EchoStar's counsel repeated EchoStar's reliance on the single theory of liability:

> Plaintiffs' theory of the case was unwavering from their summary judgment briefing through closing arguments, and that is the defendants' actions culminated in one significant event that caused the injury and damage, and that was the posting in December 2000 by an alias Nipper of the identical methodology to hack plaintiffs' conditional access system. … There was never a contention throughout the case that somehow liability should be found on this P1 test. That issue was only talked about briefly with one witness.

ER0099-100. The District Court agreed that "EchoStar did not ultimately argue that the P1 Test was a basis for liability." ER0037-38.

On October 15, 2008, the District Court rendered its Findings of Fact and Conclusions of Law ("FOF/COL"). ER0028-43. The District Court found that the jury's findings of liability could not possibly have been based on EchoStar's single theory of liability:

> The jury's findings of liability on the Communication Act claim, liability on the California Penal Code claims, no liability on EchoStar's DMCA claims, $45.69 in actual damages, and no malice, oppression or fraud demonstrate that the jury rejected EchoStar's theory that NDS was responsible for the December 2000 [I]nternet posting. Accordingly, the Court cannot base its equitable findings on that theory.

ER0037. The District Court explained that only the P1 Test could have provided the basis for the verdict, in part because $45.69 matched only one sum in evidence:

EchoStar's average revenue per subscriber at the time of the P1 Test. ER0039. The District Court therefore rejected EchoStar's demand under Section 17200 for $94,638,636.10 in restitutionary relief. ER0037. On the basis of the P1 Test, the District Court awarded EchoStar restitution "for the retail price of the programming that Tarnovsky gained access to [for the month of November 2000] less the cost of his subscription," an amount later stipulated to equal $284.94. ER0043, ER0011. In addition, the District Court granted an injunction "limited to prohibiting NDS from engaging in the illegal conduct found by the jury." ER0043. After further briefing on the scope of the injunction, the District Court modified the injunction so it would not be a violation if NDS unwittingly possessed an EchoStar pirate device through its regular security operations. ER0021.

C. The Award Of Attorney's Fees And Costs.

Both parties sought to recover their fees and costs. Portions of the District Court's orders granting fees and awarding costs, as described below, are the subject of this appeal.

1. The Parties' Briefing On Attorney's Fees And Costs.

On October 20, 2008, the parties submitted their motions for fees and costs. NDS sought its fees as the prevailing party under the DMCA and the CPC. NDS argued that it was also entitled to fees incurred in defending against EchoStar's other claims because, as EchoStar itself insisted, all of EchoStar's claims were

"inextricably intertwined." ER0085. NDS provided its billing invoices for all fees requested.[1] ER0729, ER0851. NDS also reviewed the invoices line-by-line to remove arguably unnecessary, unrelated or redundant fees, as well as fees expended on its unsuccessful counterclaims. ER0851-52, ER0730. NDS multiplied the number of hours reasonably expended on defeating EchoStar's claims by a reasonable hourly rate and calculated a lodestar of $23,500,423.12—less than 3 percent of the billions of dollars in damages that NDS faced. ER0853. NDS also sought to recover taxable costs totaling $414,560.12. *Id.* NDS submitted an itemized bill of its costs and supporting invoices. *Id*.

EchoStar filed a motion seeking all of its fees and costs incurred in the case. EchoStar again stressed its single theory of liability, asserting that all claims, beginning with its first Complaint, were "premised on NDS unlawfully compromising EchoStar's conditional access system." ER0756. EchoStar provided no invoices to support its fee request. Instead, EchoStar provided summaries including the amount of fees charged by lawyer per year. ER0779-84, ER802-11, ER0820-23, ER0837-47. EchoStar made no effort to exclude fees expended on unsuccessful claims, arguing that "because each of EchoStar's claims was based on a common core of facts, the work on EchoStar's unsuccessful claims

[1] NDS's billing records are part of the record (Docket Nos. 1160-1165, 1169). Because of their volume (over 1,000 pages), NDS did not include them in the ER.

contributed to" its alleged success on other claims. ER0759. EchoStar sought attorney's fees of $15,945,095.81. ER0757. EchoStar also sought recovery of taxable costs totaling $431,385.24 as well as non-taxable costs totaling $3,859,669.42. *Id.*

2. The Award Of Attorney's Fees.

On December 4, 2008, the District Court granted, in part, both parties' motions for fees. ER0016-27. The District Court found that the litigation presented an "exceptional case" in which awarding fees was appropriate. ER0022. It explained that NDS prevailed because:

> [i]n sum, despite the billions of dollars of monetary relief sought, EchoStar only ended up receiving $1591.38[2] and the jury did not find NDS guilty of the primary accusation (*i.e.,* that NDS was responsible for the December 2000 Internet posting.)

Id. The District Court found that NDS was entitled to fees under the DMCA due to NDS's "substantial success" at trial:

> More importantly, had the jury found that NDS was responsible for the 2000 Internet Postings, NDS would have faced the prospect of a damages award, under the remaining DMCA claims, of over a billion dollars. Due to its substantial success, NDS should be awarded attorney's fees for its defense against EchoStar's DMCA claims.

[2] The amount of damages awarded was $1,637.07: $1,500 in statutory damages plus $45.69 in actual damages trebled. ER0010-11.

ER0024. Of the twenty-six other claims asserted by EchoStar, the District Court, claiming to exercise its discretion, awarded NDS fees only for the RICO claim submitted to the jury. *Id.*

The District Court determined that EchoStar should receive fees under the CPC and Communications Act. ER0023. The District Court found that EchoStar prevailed under the CPC "on a practical level" because it "allow[ed] EchoStar to expose NDS's wrongful acts (particularly the P1 Test)." *Id.* But the District Court found that EchoStar was not entitled to all of its fees because "the December 2000 Internet Posting does not share a 'common core of facts' with the [P1 Test], such that all of EchoStar's claims should be treated as related claims for purposes of calculating attorney's fees" and thus "EchoStar's unsuccessful claims must be excluded." ER0025.

Rather than attempt to exclude hours worked on unsuccessful liability theories, which EchoStar had made no effort to do, the District Court adjusted the fees based simply on the number of claims presented to the jury. The District Court thus reduced EchoStar's total fee request by 50 percent because "the CPC and Comm. Act claims represented three of six claims submitted to the jury." ER0025-26. The District Court reduced NDS's fees by the same 50 percent, even while noting that NDS had excluded fees for claims on which it had not prevailed. ER0026.

The District Court accepted as reasonable the hourly rates charged by NDS and EchoStar. *Id.* But the District Court took exception to NDS having allegedly "spent significantly more hours on this litigation than EchoStar did." *Id.* Because both parties "presented work of similar quality," the District Court reduced NDS's fees a further 25 percent, without explaining how it determined that percentage. *Id.*

Finally, the District Court found that "the fact that the jury ultimately found for EchoStar on some of the claims involved in this intensive case entitles them to receive a larger sum of attorney's fees than NDS." *Id.* On that basis, the District Court awarded EchoStar an additional $5 million, again without any explanation of how it determined the amount. *Id.*

In total, the District Court granted EchoStar fees of $12,972,547.91 and NDS fees of $8,968,118.90. ER0027.

3. The Award Of Costs.

In its December 4, 2008 order, the District Court awarded EchoStar its full costs of suit and denied NDS's application for costs without any explanation. *Id.* On February 13, 2009, the District Court entered the Joint Final Judgment, ordering that EchoStar recover "such reasonable costs as will be awarded by the Clerk." ER0011. In response to a motion by EchoStar seeking to expand its recovery to "all costs," the District Court explained that its December 4, 2008

Order expressly limited EchoStar's recovery of costs to "those costs reasonably incurred in establishing NDS's liability for the P1 Test," because that was the "only theory upon which EchoStar prevailed at trial." ER0008.

The Clerk, however, did not limit EchoStar's costs to those incurred in establishing liability for the P1 Test. Instead the Clerk awarded EchoStar taxable costs of $236,895.93. ER0083. EchoStar again moved to recover "all costs," and NDS moved to limit EchoStar's costs to those incurred from litigating the P1 Test. The District Court denied both motions. ER0005.

STANDARD OF REVIEW

This Court reviews a district court's fee and costs award for abuse of discretion. *Ferland v. Conrad Credit Corp.*, 244 F.3d 1145, 1148 (9th Cir. 2001) (reversing fee award); *Disc Golf Ass'n v. Champion Discs, Inc.*, 158 F.3d 1002, 1010 (9th Cir. 1998) (reversing costs award). "A district court abuses its discretion when its decision is based on an inaccurate view of the law or a clearly erroneous finding of fact." *Traditional Cat Ass'n v. Gilbreath*, 340 F.3d 829, 833 (9th Cir. 2003). Specifically, a district court abuses its discretion when it applies incorrect standards in determining prevailing party status or entitlement to a fee award. *See Richard S. v. Dep't of Developmental Servs. of State of Cal.*, 317 F.3d 1080, 1088 (9th Cir. 2003). A district court also abuses its discretion when it relies on impermissible reasons or methodologies in calculating a fee award or fails to

provide an adequate explanation for its calculation of a fee award. *See Moreno v. City of Sacramento*, 534 F.3d 1106, 1116 (9th Cir. 2008); *Intel Corp. v. Terabyte Int'l, Inc.*, 6 F.3d 614, 623 (9th Cir. 1993).

SUMMARY OF THE ARGUMENT

NDS was entitled to $23.5 million in fees as the prevailing party that defeated EchoStar's single theory of liability. The District Court correctly used its discretion to conclude that NDS was entitled to fees because NDS prevailed on EchoStar's DMCA claims. 17 U.S.C. § 1203(b)(5). But the District Court erred in not also recognizing NDS as the prevailing party on EchoStar's CPC claims under the "practical approach" required by California law because EchoStar recovered less than 0.0001% of the damages it sought. As the prevailing party on the CPC claims, NDS had a statutory right to fees. Cal. Penal Code §§ 593e(d), 593d(f)(2). Having prevailed on claims entitling NDS to fees, the District Court also erred in not awarding NDS fees on EchoStar's other claims, all of which were "related" under the applicable legal standard to the claims for which NDS was entitled to fees. *Hensley v. Eckerhart*, 461 U.S. 424, 434-35 (1983); *Traditional Cat*, 340 F.3d at 833-34.

Although the District Court correctly concluded that NDS was entitled to a fee award, it abused its discretion in reducing NDS's requested fees over 60 percent. The District Court erred by first reducing NDS's requested fees by 50

percent—the percentage of claims the jury decided wholly in NDS's favor. *Hensley*, 461 U.S. at 435 n.11; *Schwarz v. Sec'y of Health & Human Servs.*, 73 F.3d 895, 904-05 (9th Cir. 1995). Then, because the District Court (incorrectly) concluded that NDS had spent more hours on the case than EchoStar, the District Court abused its discretion by reducing NDS's award an additional 25 percent, an unexplained percentage that corresponds to nothing in the District Court's analysis. *Ferland*, 244 F.3d at 1151.

The District Court also abused its discretion in awarding EchoStar exorbitant fees totaling $12,972,547.91. The District Court erred by not requiring EchoStar to submit detailed billing records and by awarding EchoStar fees that were obviously unrelated to the jury imposing minimal liability for the P1 Test. *Gracie v. Gracie*, 217 F.3d 1060, 1069-71 (9th Cir. 2000). The District Court further erred by failing to reduce EchoStar's fees to reflect that EchoStar recovered less than $2,000 despite having requested over $2 ***billion*** in relief. *McCown v. City of Fontana*, 565 F.3d 1097, 1104 (9th Cir. 2009). The District Court then compounded its error by awarding EchoStar a $5 million bonus without appropriate legal or factual basis. *Blum v. Stenson*, 465 U.S. 886, 898-901 (1984).

The District Court also abused its discretion by not awarding NDS taxable costs and by awarding EchoStar costs totaling $236,895.93. The District Court gave no explanation for denying NDS its costs, a decision inconsistent with NDS's

defeat of EchoStar's single theory of liability. *Trans Container Serv. (Basel) A.G. v. Sec. Forwarders, Inc.*, 752 F.2d 483, 488 (9th Cir. 1985). Instead, the District Court granted EchoStar taxable costs without requiring any showing that they were related to the only issue on which EchoStar prevailed—the P1 Test—or adequately considering EchoStar's miniscule success in the case. *McCown*, 565 F.3d at 1104-05.

The District Court's awards of fees and costs must be reversed.

ARGUMENT

I. NDS IS ENTITLED TO ITS FEES FOR DEFEATING ECHOSTAR'S CLAIMS.

In deciding a fee motion, "district courts are charged with two tasks: first, deciding whether an award of attorneys' fees is appropriate, and second, calculating the amount of fees to be awarded." *Traditional Cat*, 340 F.3d at 832-33. In this case, NDS prevailed on all three DMCA claims, and the District Court exercised its discretion to award NDS attorney's fees based on that success under 17 U.S.C. § 1203(b)(5). The District Court erred, however, in not awarding fees to NDS for the CPC claims. ER0023. In addition to the DMCA claims, NDS prevailed on all five CPC claims under the "practical approach" required by California law. The statutes governing the CPC claims specify that the prevailing party "shall" be entitled to recover attorney's fees. Cal. Penal Code §§ 593e(d), 593d(f)(2).

The District Court also should have awarded fees to NDS for EchoStar's other claims because all of EchoStar's claims were related. *Hensley*, 461 U.S. at 434-35, 440; *McCown*, 565 F.3d at 1103; *Entm't Research Group, Inc. v. Genesis Creative Group, Inc.*, 122 F.3d 1211, 1230 (9th Cir. 1997). But the District Court awarded fees to NDS only for the DMCA and RICO claims. ER0023-24. The District Court recognized that NDS prevailed against "the primary accusation" in the case and achieved "substantial success" in the face of "a damages award … of over a billion dollars." ER0022, ER0024. And the District Court correctly found that the RICO claim was related to EchoStar's DMCA claims. ER0024. By that same standard, NDS was entitled to recover fees for the remainder of EchoStar's claims because they were all related to EchoStar's "single theory of liability," which NDS unambiguously defeated.

A. NDS Is Entitled To Fees Under The DMCA.

Under the DMCA, a court "in its discretion may award reasonable attorney's fees to the prevailing party." 17 U.S.C. § 1203(b)(5). A defendant is the "prevailing party" when it receives a favorable jury verdict, *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 520 (1994), or summary judgment, *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1145, 1156 (9th Cir. 2002) (Lanham Act). NDS is the "prevailing party" on EchoStar's three DMCA claims. The District Court dismissed one DMCA claim at summary judgment, and the jury found for NDS on

the remaining two DMCA claims. ER0024. Following NDS's success on the DMCA claims, and applying the governing factors, the District Court properly exercised its discretion to award NDS fees pursuant to 17 U.S.C. § 1203(b)(5). ER0024.

B. NDS Is Entitled To Fees Under The CPC.

Independent of receiving fees for defeating EchoStar's DMCA claims, NDS was entitled to fees for prevailing on EchoStar's CPC claims. The District Court did not award NDS fees for wholly defeating EchoStar's three CPC claims, despite NDS's statutory right to those fees. Instead, the District Court awarded EchoStar fees as the prevailing party on two of EchoStar's five CPC claims because the jury awarded minimal damages on each and because those two claims supposedly allowed "EchoStar to expose NDS's wrongful acts (particularly the P1 Test)." *Id.* This was error because NDS achieved its litigation objectives of defeating EchoStar's single theory of liability on which all five CPC claims were based and defeating EchoStar's demand for billions of dollars.

The statutes governing EchoStar's CPC claims provide that a prevailing party "shall" be entitled to recover its reasonable fees. Cal. Penal Code §§ 593e(d), 593d(f)(2). Under California's general "prevailing party" standard, courts must employ a "flexible, pragmatic" standard to determine "which party succeeded on a practical level." *Donner Mgmt. Co. v. Schaffer*, 142 Cal. App. 4th

1296, 1309-10 (2006). This "practical approach" focuses on "analyzing which party realized its litigation objectives." *Castro v. Superior Court*, 116 Cal. App. 4th 1010, 1018-19 (2004).

Applying this "practical approach," NDS is the prevailing party on EchoStar's five CPC claims. NDS is unquestionably the prevailing party on three CPC claims. The District Court granted NDS summary judgment on EchoStar's claim under CPC § 593d(c). ER0907-08. And EchoStar abandoned its claims under CPC §§ 593d(b) and 593e(a) when it filed its 5AC following the District Court's summary judgment order. *Compare generally* ER0245-73 to ER0357-424. NDS was entitled to a fee award as a matter of law for prevailing on these claims.

NDS is also the prevailing party on the two CPC claims tried to the jury. As pled and argued by EchoStar, these two CPC claims were based on the same single theory of liability—including the alleged acts of the "distribution network"—as EchoStar's other claims on which NDS prevailed. ER0269-73. The jury rejected that theory as a basis for holding NDS liable on the CPC claims. ER0040. Instead, the jury found that NDS had violated two CPC sections—Cal. Penal Code §§ 593d(a) and 593e(b)—when Tarnovsky conducted the P1 Test. ER0039. But EchoStar acknowledged that it "did not suggest to the Jury that Defendants' liability is premised" on the P1 Test and that "there was never a contention throughout the case that somehow liability should be found on the P1 test."

ER0104, ER0100. Because EchoStar failed to prove its "single theory of liability," there is no practical measure by which EchoStar achieved "its litigation objectives."

The trivial relief awarded by the jury further confirms that NDS is the prevailing party under California's "practical approach" on these two CPC claims. As relief for its "single theory of liability," EchoStar asked the jury to find NDS liable for $184.8 million in actual damages and $1 billion in statutory damages. ER0133-34. Instead, the jury awarded EchoStar actual damages of $45.69, EchoStar's average monthly subscription fee at the time of the P1 Test. ER0039. The jury also found a single violation of each statute and awarded the lowest possible statutory damages. ER0109-11. And consistent with these minimal awards, the jury found that NDS did not act maliciously or oppressively and had not conspired against EchoStar. ER0010, ER0012.

In *Berkla v. Corel Corp.*, 302 F.3d 909 (9th Cir. 2002), this Court reviewed a fee award under a California statutory provision that, like the "practical approach," focused on which party achieved its "litigation objectives." *Id*. at 920 (internal quotations omitted). Although the plaintiff in *Berkla* obtained damages exceeding $30,000 and a jury finding that the defendant had acted with fraud, oppression, or malice, the plaintiff had requested more than $1.2 million. *Id*. at 916, 920. The district court determined that plaintiff was not the "prevailing party"

given California law's focus on achieving litigation objectives. *Id.* at 919-20. This Court affirmed, stating that the plaintiff's "objectives clearly involved a substantial financial payoff," but he recovered less than 3 percent of the amount sought at trial. *Id.* at 920. Here, EchoStar achieved far fewer of its litigation objectives.

Despite NDS's practical success on EchoStar's CPC claims, the District Court refused to recognize NDS as the prevailing party, asserting that the jury's verdict "allow[ed] EchoStar to expose NDS's wrongful acts." ER0023. But the only incident for which the jury held NDS liable was the P1 Test—a single, technical violation that NDS never denied. ER0039-40. In fact, the District Court repeatedly recognized that such tests were common in the industry, including by EchoStar. ER0030, ER0032. There were no other "wrongful acts" exposed by EchoStar's lawsuit. And it was error for the District Court to find EchoStar the prevailing party based on that assertion.

Under the required "practical approach," NDS was the prevailing party on the five CPC claims and was entitled to fees under the mandatory fee-shifting provisions in those statutes. Cal. Penal Code §§ 593d(f)(2), 593e(d). NDS's success on the DMCA claims and CPC claims each independently supports a fee award to NDS.

C. By Refuting EchoStar's Single Theory Of Liability And Defeating EchoStar's Demand For Billions Of Dollars, NDS Became Entitled To Recover Its Requested Fees.

Despite NDS's success in defeating EchoStar's DMCA and CPC claims, the District Court awarded fees to NDS only for the DMCA and RICO claims that were submitted to the jury. ER0023-24. After deciding to award NDS fees "for its defense against EchoStar's DMCA claims," the District Court concluded that it could exercise its discretion by not awarding NDS fees for the remaining claims, other than for EchoStar's RICO claim. ER0024. The District Court erred in failing to award NDS its remaining requested fees because EchoStar's claims were all related to the DMCA and CPC claims on which NDS prevailed.

"It is well-established law that a party entitled to attorney's fees as a prevailing party on a particular claim, but not on other claims in the same lawsuit, can only recover attorney's fees incurred in defending against that one claim or any 'related claim.'" *Genesis Creative*, 122 F.3d at 1230; *see Hensley*, 461 U.S. at 434-35; *Akins v. Enter. Rent-A-Car Co. of S.F.*, 79 Cal. App. 4th 1127, 1133 (2000). Because NDS is entitled to fees as the prevailing party on the DMCA and CPC claims, the "first step" in calculating NDS's reasonable fees should be deciding if the DMCA and CPC claims on which NDS prevailed were "related" to EchoStar's other claims. *Traditional Cat*, 340 F.3d at 833-34; *Gracie*, 217 F.3d at 1069-70; *Genesis Creative*, 122 F.3d at 1230. Claims are "related" if they

"involve a common core of facts" or are based on "related legal theories." *Hensley*, 461 U.S. at 435. Claims also are related if they arise "out of the same 'course of conduct.'" *Schwarz*, 73 F.3d at 903.

In *Traditional Cat*, the defendants contended that they were entitled to recover all of their fees because all claims in the case arose out of the same facts or legal theories. 340 F.3d at 833. The trial court denied the defendants' fee request without deciding whether the claims were related. *Id*. at 832. This Court reversed, holding that the trial court should have "first decide[d] whether the … claims [were] related." *Id*. at 834. Making such a decision, the Court explained, would have enabled the appellate court to understand whether the trial court denied recovery of fees because the claims were unrelated or because there was no legal basis to award fees. *Id*. at 833-34.

Here, although the District Court acknowledged what it termed "Hensley's 'intertwined' principle" (ER0024), the District Court failed to determine whether EchoStar's other claims were related to the DMCA and CPC claims on which NDS prevailed. *Traditional Cat*, 340 F.3d at 833-34. There is only one correct outcome for that inquiry: all of EchoStar's claims—not just the RICO claim—were related to the DMCA and CPC claims on which NDS prevailed. By EchoStar's own admission, all of its claims were based on the same single theory of liability that NDS destroyed EchoStar's CAS, not on the theory that NDS tested a pirate

technology it found on the Internet. ER0104. The District Court concluded that EchoStar's RICO claim was related to the DMCA claim because it "alleged a conspiracy to engage in the same basic acts involved in the DMCA claims." ER0024. By that standard, EchoStar's other claims were also related to EchoStar's single theory of liability and, in turn, the DMCA claim. The District Court's failure to make any determination of relatedness regarding the remaining claims, let alone the correct determination, was error.

Separately, the District Court erred by failing to apply the second part of *Hensley's* standard in determining whether to award NDS fees for the remainder of EchoStar's claims. In *Hensley*, the Supreme Court established that trial courts must also "focus on the significance of the overall relief obtained … in relation to the hours reasonably expended on the litigation." 461 U.S. at 435. The District Court made no such inquiry. Instead, the District Court determined that a fee award was not "necessary under Hensley's 'intertwined' principle" and that it had discretion not to award fees for the other claims. ER0024. The District Court gave no indication of whether it considered the overall relief obtained by NDS.

If one considers the "overall relief obtained," NDS "should recover a fully compensatory fee." *Hensley*, 461 U.S. at 435. NDS unquestionably prevailed on twenty-five of EchoStar's twenty-nine claims. On the four remaining claims, EchoStar received only $1,637.07 in damages and $284.94 restitution because

NDS conducted the P1 Test. ER0010-11. By defeating EchoStar's "single theory of liability," NDS also defeated EchoStar's demand for billions in actual and statutory damages and penalties. Because of NDS's overwhelming success in defeating EchoStar's claims, NDS was entitled to recover all of its requested fees.

II. THE DISTRICT COURT ERRED IN REDUCING NDS'S REQUESTED FEES.

As the prevailing party on EchoStar's many related claims, NDS was entitled to recover its reasonable fees. The District Court, however, awarded NDS only 37.5 percent of the fees it requested. ER0026-27. In reaching that result, the District Court took two steps that each constitutes error. First, the District Court reduced the amount of NDS's lodestar by 50 percent based on the percentage of claims on which the jury found in NDS's favor. ER0026. And, second, the District Court cut NDS's award an additional 25 percent based on its mistaken conclusion that the hours claimed by NDS exceeded the number claimed by EchoStar. *Id*.

A. The District Court Erred In Reducing NDS's Lodestar By 50 Percent.

Although the District Court acknowledged that NDS defeated EchoStar's single theory of liability and prevailed completely on twenty-five of the twenty-nine claims asserted by EchoStar, the District Court reduced NDS's lodestar by one-half. ER0017-18, ER0022, ER0026. According to the District Court, NDS

prevailed "to the point of meriting attorney's fees" only on "the DMCA claims and RICO claim that went to trial." ER0026. Because those DMCA and RICO claims were three of the six claims submitted to the jury, the District Court concluded that "it is appropriate to reduce NDS's reasonable attorney's fees by 1/2." *Id.* The District Court erred by reducing NDS's lodestar based on the number of claims presented to the jury.

The "starting point" for determining the amount of a reasonable fee award is the "lodestar," which is the product of "the number of hours reasonably expended on the litigation" and "a reasonable hourly rate." *Hensley*, 461 U.S. at 433. The lodestar is presumptively reasonable. *Pennsylvania v. Del. Valley Citizens' Council for Clean Air*, 478 U.S. 546, 564-65 (1986). After excluding time spent on unsuccessful and unrelated claims, the court must assess the proposed fee award against the extent of the prevailing party's overall success in the litigation. *Hensley*, 461 U.S. at 440. In "rare" or "exceptional" cases, a court may adjust the fee award further based on the factors identified in *Kerr v. Screen Extras Guild, Inc.*, 526 F.2d 67 (9th Cir. 1975). *Del. Valley*, 478 U.S. at 564-65.

Percentage reductions "in cases involving large fee requests are subject to heightened scrutiny." *Gates v. Deukmejian*, 987 F.2d 1392, 1399-1400 (9th Cir. 1993). In *Moreno*, this Court emphasized that when a trial court makes substantial reductions to a fee award, it must provide "weightier and more specific,"

"reasoned," and "clear" justifications. 534 F.3d at 1112-14.

The sole justification offered by the District Court for its 50 percent reduction was that NDS prevailed on one-half of the claims "that went to trial." ER0026. Precedent authorizes the use of a "crude" formula in certain circumstances. *Schwarz,* 73 F.3d at 904-05. But that formula may not be based merely on comparing the number of successful claims to the number of unsuccessful claims. The Supreme Court specifically rejected using "'a mathematical approach comparing the total number of issues in the case with those actually prevailed upon.'" *Hensley*, 461 U.S. at 435 n.11. Instead, as this Court recognized in *Schwarz*, trial courts may apply such formulas only to exclude fees incurred for unsuccessful claims "that are ***unrelated*** to the successful claim." 73 F.3d at 904 (emphasis added). *Hensley* mandates that the prevailing party should recover fees incurred for all related claims so long as the fee award is reasonable relative to "the overall relief obtained." 461 U.S. at 435.

Here, the District Court failed to determine whether EchoStar's other claims were related to the claims for which NDS was entitled to fees, and the District Court failed to compare NDS's fee request to the "overall relief obtained." EchoStar's claims were all related because they were based on EchoStar's "single theory of liability"; NDS, moreover, excluded from its request all fees related to NDS's counterclaims. ER0104, ER0851-52. NDS's fee request also was

reasonable compared to the "overall relief" obtained. By the District Court's own assessment, NDS achieved "substantial success" by refuting the "primary accusation" in the case and defeating EchoStar's demand for "billions of dollars of monetary relief." ER0022, ER0024. The District Court erred in reducing the lodestar figure by 50 percent.

B. The District Court Erred By Reducing NDS's Fees An Additional 25 Percent.

After reducing NDS's fees by 50 percent, the District Court cut NDS's fees by an additional 25 percent based on its assessment of the "time and labor required" to litigate the case. ER0026. According to the District Court, NDS spent "significantly more hours" on the litigation than EchoStar but "presented work of similar quality," so "NDS's claimed fees should be reduced to reflect this reality." *Id*. In making this determination, the District Court erred for at least three reasons.

First, the District Court abused its discretion by reducing NDS's fee award based on comparing NDS's hours to EchoStar's hours. Under *Kerr*, a court may adjust the lodestar based on the "time and labor required." 526 F.2d at 70. This factor ensures that that the lodestar is reasonable in light of the work required to prosecute or defend the case. *Id*. As the District Court recognized, this case required an extraordinary amount of time and resources. ER0022.

Rather than evaluate the reasonableness of the time spent by NDS in the context of the case's history or the overall outcome of the case, the District Court

compared the number of hours NDS spent to the number of hours EchoStar spent. ER0026. This Court has found, however, that such comparisons provide little, if any, relevant information. *Ferland*, 244 F.3d at 1151. In *Ferland*, the Court explained that "opposing parties do not always have the same responsibilities under the applicable rules, nor are they necessarily similarly situated with respect to their access to necessary facts, the need to do original legal research to make out their case, and so on." *Id*.

This admonition is directly relevant here. Because the case involved EchoStar's technology, EchoStar had ready access to witnesses with knowledge of its access cards. NDS, by contrast, had to engage in extensive technical analysis and factual investigation to understand and evaluate EchoStar's claims. ER0144. NDS was also forced to obtain discovery from EchoStar's affiliates in Switzerland, NagraVision and NagraCard, which produced tens of thousands of documents that proved critical to the outcome of the case. ER0849-50. To rebut EchoStar's single theory of liability that NDS was responsible for the piracy of EchoStar's CAS, NDS identified and located several satellite pirates with direct knowledge of EchoStar piracy. ER0850. Most significantly, NDS faced billions of dollars in damages ***and won***. The fact that EchoStar—the party that lost—billed fewer (or more) hours "has no bearing on the reasonableness of [NDS's] work." *Love v. Mail on Sunday*, No. CV05-7798 ABC(PJWX), 2007 WL 2709975, at *10 (C.D.

Cal. Sept. 7, 2007).

Second, even if comparing hours worked were a permissible test, the District Court incorrectly tallied the hours worked: NDS requested fees for fewer total hours than EchoStar. The District Court referenced the three declarations submitted by NDS and compared the total hours to the number of hours spent by EchoStar's attorneys. ER0026. But NDS's fee declarations included ***both attorney and non-attorney time*** and totaled 57,997.35 hours. ER00729, ER0742, ER0751. The District Court compared that figure to the number of hours spent only by ***EchoStar's attorneys*** (45,948.49 hours).[3] ER0026. The total number of attorney and non-attorney hours claimed by EchoStar in the declarations supporting its fee request was ***63,650.29***—over 5,652.94 hours more than NDS. ER0774-77, ER0800-01, ER0819, ER0832.

Third, the District Court abused its discretion because it failed to explain how its "hours spent" comparison resulted in a 25 percent reduction in fees. ER0026. This Court has a "long-standing insistence upon a proper explanation of any fee award." *Intel*, 6 F.3d at 623. In *Gates*, the trial court made an "across-the-board" reduction of 10 percent to the plaintiffs' fee request to account for "overbilling and duplication." 987 F.2d at 1397. This Court vacated the award,

[3] The District Court cited this figure, but the actual number of attorney hours claimed by EchoStar was 45,958.39. ER0774-77, ER0811, ER0823, ER0847.

finding that the trial court failed to provide an adequate explanation of "how and why" the fee award was reduced by 10 percent. *Id*. at 1401.

In this case, the District Court gave an (incorrect) explanation for reducing NDS's fees, but it provided no explanation for reducing the fees by 25 percent. ER0026. Nothing in the District Court's Order corresponds to that percentage. The number of hours submitted in NDS's and EchoStar's fee requests, whether accurately compared or as compared by the District Court, do not differ by 25 percent. *Id.* The District Court's failure to provide a legitimate reason for reducing NDS's fee by 25 percent was error.

III. THE DISTRICT COURT ERRED IN AWARDING ECHOSTAR OVER $12 MILLION IN FEES.

The District Court awarded EchoStar over $12 million in fees—an award of over $8,000 for every dollar in damages awarded by the jury. The sole basis for the jury's award was the P1 Test—***a theory of liability that EchoStar never pled or argued***. The jury rejected EchoStar's single theory of liability that NDS was responsible for the destruction of EchoStar's CAS by facilitating a distribution network for pirate EchoStar access cards and for making the December 2000 posting. The jury also rejected EchoStar's request for billions of dollars.

Under these circumstances, the fee award to EchoStar was an abuse of discretion. At most, EchoStar was entitled to fees for "prevailing" on its Communications Act claim on the basis of the P1 Test. But the District Court

failed to exclude significant fees that were not "reasonably expended" in proving the P1 Test, the only theory on which EchoStar prevailed. The District Court also abused its discretion by failing to reduce EchoStar's fee award to reflect the limited results it obtained in the case. In fact, instead of reducing EchoStar's fee award, the District Court awarded EchoStar a $5 million bonus without appropriate legal or factual basis.

A. The District Court Failed To Scrutinize EchoStar's Fee Records And Failed To Exclude Fees That Were Not "Reasonably Expended."

The District Court abused its discretion by awarding fees without reviewing EchoStar's billing records, which EchoStar never submitted. And the District Court abused its discretion in failing to reduce EchoStar's fee award for "duplicative" and "unnecessary" work and, more significantly, for hours spent on claims unrelated to the P1 Test.

To calculate the lodestar, the court must determine "the number of hours reasonably expended on the litigation." *Hensley*, 461 U.S. at 433-34. The lodestar figure must exclude time spent for work that is "excessive" or "otherwise unnecessary." *Id*. at 434. Where, as here, a party has only minimally prevailed, the court also must identify and exclude time spent on unsuccessful and unrelated claims. *Id*. at 434-35; *Traditional Cat*, 340 F.3d at 833-34. These categories of hours must be excluded because they "cannot be deemed to have been expended in

pursuit of the ultimate result achieved." *Hensley*, 461 U.S. at 434-35. The District Court failed to perform these essential tasks.

1. The District Court's Failure To Review EchoStar's Billing Records Was An Abuse Of Discretion.

EchoStar did not submit its attorneys' invoices to support its fee request, although EchoStar submitted redacted excerpts of those invoices to support its costs request. Instead, EchoStar submitted a series of declarations from its attorneys that provide only the general nature of each firm's contribution and the number of hours that each timekeeper billed every year. *E.g.*, ER0825-30, ER0786-98. Those summaries do not indicate the nature or purpose of the work performed by each timekeeper, the particular claim for which any work was done, or even the particular client on whose behalf the work was done. *E.g.,* ER0837-47, ER0802-11. Nor do those summaries purport to exclude time spent on unsuccessful or unrelated claims.

A party seeking a fee award bears the burden of submitting "detailed time records justifying the hours claimed to have been expended." *Welch v. Metro. Life Ins. Co.*, 480 F.3d 942, 948-49 (9th Cir. 2007). Providing time records permits the reviewing court and the opposing party to "make a fair evaluation of the time expended, the nature and need for the service, and the reasonable fees to be allowed." *Hensley*, 461 U.S. at 441 (Burger, C.J., concurring); *see Genesis Creative*, 122 F.3d at 1231-32.

Without EchoStar's billing records or an equivalent description of how the time was spent, the District Court and NDS were unable to assess whether any of the 63,650.29 hours claimed by EchoStar were "reasonably expended." Nor was the District Court or NDS able to evaluate whether any of the requested fees were incurred to establish NDS's liability for the P1 Test, rather than unrelated claims on which EchoStar was unsuccessful. NDS objected to EchoStar's fee request for these very reasons. ER0088-89. But the District Court required disclosure of neither EchoStar's billing records nor additional information about the hours claimed.

The District Court's blind reliance on EchoStar's summaries was an abuse of discretion. "[M]ere summaries of hours worked" make it "very difficult to ascertain whether the time devoted to particular tasks was reasonable and whether there was improper overlapping of hours." *Intel*, 6 F.3d at 622-23. These summaries also did not allow the District Court to fulfill its obligation to exclude hours spent on unsuccessful, unrelated claims. *Genesis Creative*, 122 F.3d at 1231-32; *Gracie*, 217 F.3d at 1069-71.

2. The District Court Abused Its Discretion By Failing To Exclude Fees That Were Not "Reasonably Expended."

The District Court correctly determined that it would be unreasonable for EchoStar to recover all of the fees it incurred. ER0025. But even the limited information submitted by EchoStar shows that the District Court grossly

overcompensated EchoStar in two ways that constitute reversible error.

First, the District Court failed to exclude time spent on unrelated and unsuccessful claims. Such claims "must be treated as if they had been raised in a separate lawsuit" and excluded from any lodestar figure. *McCown*, 565 F.3d at 1103. The District Court acknowledged this principle and, purporting to apply it, reduced EchoStar's fees by 50 percent because EchoStar prevailed on "three of the six claims submitted to the jury." ER0025-26. But that reduction bears no relationship to the ratio of work performed on EchoStar's successful versus unsuccessful claims, nor did the District Court attempt to explain why that reduction was appropriate under controlling law. *Id.*

In *Gracie*, this Court reversed a fee award because the trial court failed to make any "attempt to adjust the fee award to reflect, even if imprecisely, work performed" on unrelated and unsuccessful claims. 217 F.3d at 1069-70. In *Schwarz*, the Court upheld a reduced fee award, but only because the trial court explained that the 25 percent reduction was its "best estimate of the hours spent … litigating the unsuccessful and unrelated claims." 73 F.3d at 902, 905. The District Court made no such findings regarding the amount of work required for the claims on which EchoStar prevailed versus the unsuccessful and unrelated claims. *Id*.

The facts show that EchoStar spent far more than half its fees on unrelated

and unsuccessful claims. The only theory of liability on which EchoStar prevailed was the P1 Test, a theory EchoStar never asserted and NDS never denied. ER0037-40, ER0099-100, ER0122-23. But the P1 Test, as the District Court acknowledged, was not related to the "single theory of liability" on which all of EchoStar's claims were based. ER0025 EchoStar never pled the P1 Test as a basis for liability in any of its six Complaints. In the 80+ depositions taken, EchoStar only asked a few minutes of questions to one witness about the P1 Test. (*Supra* at 15.) And EchoStar barely mentioned the P1 Test during the entire four-week trial. (*Supra* at 16-19.) By contrast, the entirety of each Complaint that EchoStar filed, the overwhelming majority of the parties' discovery efforts, and the bulk of the four-week jury trial were focused on EchoStar's "single theory of liability." ER0099-100. All time spent on EchoStar's "single theory of liability" should have been excluded, but it was not.

EchoStar also sought fees for defending against NDS's counterclaims. ER0758. But none of the statutes underlying those claims permits a fee award in the circumstances present here. And none of the facts or theories underlying the counterclaims—which related to EchoStar's acquisition of confidential and proprietary NDS trade secrets and documents—had any relation to the P1 Test, much less EchoStar's "single theory of liability." In *Illinois Bell Telephone Co. v. Haines & Co.*, No. 85 C 7644, 1989 WL 76012 (N.D. Ill. July 3, 1989), the court

disallowed recovery of fees incurred to defend against unrelated counterclaims. *Id.* at *2. The same result should apply here.

EchoStar also sought fees relating to its claims against twenty-one individual defendants who were sued in earlier iterations of the Complaint. Claims against seventeen individual defendants were dismissed by the District Court, and EchoStar obtained default judgments against four individual defendants. ER0088, ER0582-85. The District Court should not have charged NDS for fees incurred asserting claims against other defendants. *Jones v. Espy*, 10 F.3d 690, 691-92 (9th Cir. 1993).

In *Genesis Creative*, the Court reversed a fee award because the trial court improperly awarded fees for claims that involved "completely different legal theories and questions." 122 F.3d at 1230. "The mere fact that the [unrelated] claims were a part of this overall case," the Court explained, did not mean that the defendant could recover fees incurred on the unrelated claims. *Id*. Similarly, the District Court abused its discretion by awarding EchoStar fees for the time spent on claims and counterclaims unrelated to the P1 Test and on claims asserted against other defendants.

Second, the District Court abused its discretion in failing to exclude hours that on their face were "excessive," "unnecessary," or otherwise improper. *See Hensley*, 461 U.S. at 434; *Intel*, 6 F.3d at 623. EchoStar's failure to submit its

attorneys' invoices makes a complete evaluation impossible. But a cursory review of EchoStar's fee petition indicates significant unreasonable fees. For example, EchoStar included fees incurred by counsel and staff representing non-parties. ER0786. One attorney, Philip L. Cohan, repeatedly represented to the District Court, to another federal court in proceedings related to this case, and to NDS that he ***only*** represented non-parties in this case. ER0089-90, ER0668-716, ER0183-88, ER0176-79. But EchoStar included fees incurred by Cohan and by other DLA attorneys and staff who appear to have worked with Cohan on his non-party representation. ER0803-11. These fees were not trivial: for Cohan alone, they constitute over $1,000,000. *Id.*

B. The District Court Failed To Reduce EchoStar's Fee Award To Reflect The Limited Results It Obtained.

After determining the amount of hours reasonably expended on the litigation, a court must evaluate the proposed fee award in light of the "degree of success obtained" by the prevailing party. *Hensley*, 461 U.S. at 436; *McCown*, 565 F.3d at 1103. The District Court abused its discretion by failing to conduct that analysis, and it compounded that error by arbitrarily awarding EchoStar a $5 million bonus. ER0026.

1. EchoStar's Fee Award Should Have Been Significantly Reduced Because Of The Minimal Relief It Obtained.

The District Court acknowledged that EchoStar's initial fee demand was

"not reasonable." ER0025. But after computing a lodestar of $7.9 million, the District Court never reviewed the proposed award in light of the "results obtained" by EchoStar. *Hensley*, 461 U.S. at 436.

This Court instructed recently that, in evaluating the results obtained, a "comparison of damages awarded to damages sought" should be given "primary consideration." *McCown*, 565 F.3d at 1104. In *Hensley*, the Supreme Court emphasized that if "the relief [obtained], however significant, is limited in comparison to the scope of the litigation as a whole," courts must reduce the fee award. 461 U.S. at 439-40.

Applying this binding precedent confirms that a significant reduction of EchoStar's fee award was required. The jury rejected EchoStar's single theory of liability, the principal issue in the case. The jury awarded EchoStar $1,545.69, which corresponds to 0.000025% of the actual damages ($45.69 of $184.8 million) and 0.00015% of the statutory damages ($1,500 of $1 billion) EchoStar requested. These miniscule percentages would be smaller if one considered the $828.73 million in disgorgement and potentially billions of dollars in punitive damages that EchoStar demanded but was denied. EchoStar also sought to recover over $94 million in restitution but obtained only $284.94 (0.0003%). The sole basis for the jury's and the District Court's awards was the P1 Test, a single incident that, by EchoStar's own admission, was never the basis for any of its claims.

The injunctive relief ordered by the District Court reinforces the extent of EchoStar's defeat. EchoStar sought an expansive order corresponding to its single theory of liability and enjoining NDS from, among other things, "using reverse engineering for improper purposes," "engaging in or causing satellite piracy," and "distributing or publishing data resulting from the reverse engineering of EchoStar's products." ER0103. The District Court rejected EchoStar's proposed injunction and enjoined NDS from the limited type of "security testing" that was involved in the P1 Test. ER 0045-46.

This Court's decisions establish that the District Court abused its discretion. In *McCown*, the plaintiff asserted nine claims and sought damages "in excess of $75,000." 565 F.3d at 1100-01. The trial court dismissed eight claims on summary judgment and on the eve of trial, the parties settled the remaining claim for $20,000. *Id*. The trial court awarded the plaintiff $200,000 in attorney's fees, but this Court reversed. *Id*. at 1103-05. The plaintiff, according to the Court, "clearly fell far short of his goal," but the trial court failed to take that into account when calculating the fee award. *Id*. at 1104-05. Similarly, in *McGinnis v. Kentucky Fried Chicken of California*, 51 F.3d 805 (9th Cir. 1995), this Court reversed the trial court's fee award of $127,242. *Id*. at 807. The plaintiff had recovered $234,000 in damages at trial, but on appeal, the Court reduced the award to $34,000. *Id*. at 808. The Court ordered the trial court to "reduce the attorneys

fees award so that it is commensurate with the extent of the plaintiff's success." *Id*. at 810. Here, the District Court abused its discretion in failing to account for EchoStar's limited success.

2. The District Court's $5 Million Bonus Award To EchoStar Was An Abuse Of Discretion.

Despite NDS's overwhelming success, the District Court awarded ***EchoStar*** an additional $5 million in fees on top of the $7.9 million lodestar. The District Court provided a single statement to "support" its enhanced fee award: "The fact that the jury ultimately found for EchoStar on some of the claims involved in this intensive case entitles them to receive a larger sum of attorney's fees than NDS." ER0026. The $5 million bonus was an abuse of discretion for several independent reasons.

First, no authority supports a fee enhancement based on the relative sizes of the parties' fee awards. The Supreme Court has explained that the lodestar shall be treated as presumptively reasonable; only in "rare" and "exceptional" cases may a court enhance the lodestar figure. *Delaware Valley*, 478 U.S. at 564-65; *Blum*, 465 U.S. at 898-901. In *Kerr*, this Court identified a list of twelve factors that courts may consider when evaluating whether to adjust the lodestar. 526 F.2d at 70.[4] The

[4] Many of the factors listed in *Kerr* have been subsumed into the lodestar calculation and are no longer relevant. *Hensley*, 461 U.S. at 434 n.9.

Kerr factors recognize that in "rare" cases, the product of reasonable hours times a reasonable rate may not yield "fair and reasonable compensation" for the prevailing party's counsel. *See Blum*, 465 U.S. at 901; *Kerr*, 526 F.2d at 70. None of the *Kerr* factors, however, relates to the size of fees awarded to one's adversary. By enhancing the lodestar based on the relative sizes of the parties' fee awards, the District Court erred.

Second, the purported evidence cited by the District Court to support the bonus—*i.e.*, that the jury found in EchoStar's favor on "some of the claims"—was insufficient as a matter of law and fact. ER0026. In *Delaware Valley*, the Supreme Court explained that "upward adjustments to the lodestar figure … [must be] supported by both specific evidence on the record and detailed findings." 478 U.S. at 565; *see also Jordan v. Multnomah County*, 815 F.2d 1258, 1262 (9th Cir. 1987). Although the District Court stated generally that the case was "intensive" and "presented exceptional circumstances," the District Court failed to explain with specificity why ***EchoStar*** was entitled to an enhancement of the lodestar figure. ER0021-22, ER0026. EchoStar, in fact, neither contended that this case merited an enhanced fee award nor requested any bonus. ER0758-61. Circuit courts consistently reject enhanced fee awards that are not properly justified. *See, e.g.*, *Forshee v. Waterloo Indus., Inc.*, 178 F.3d 527, 532 (8th Cir. 1999); *Hendrickson v. Branstad*, 934 F.2d 158, 162 (8th Cir. 1991).

The District Court's purported basis for the fee enhancement also was factually unsupportable. Although the jury technically found for EchoStar on "some of the claims," the jury found in NDS's favor on an equal number of claims. ER0026. More importantly, the jury rejected the primary theory of liability presented at trial and rejected EchoStar's demand for over $1 billion in damages. The irrelevance of the District Court's "evidentiary basis" is easily demonstrated by reversing the names of the parties and seeing that the District Court's rationale remains equally true: "The fact that the jury ultimately found for [NDS] on some of the claims involved in this intensive case entitles them to receive a larger sum of attorney's fees than [EchoStar]." *Id.* If anything, the revised statement is more accurate. If any party was entitled to a larger award based on the jury's verdict, it was NDS, not EchoStar.

Third, the District Court's failure to explain why it selected $5 million as the amount of the bonus was an abuse of discretion. *Moreno*, 534 F.3d at 1111, 1116. Based on the other adjustments made by the District Court, the parties' respective fee awards differed by less than $1 million ($8,968,118.90 for NDS; $7,972,547.91 for EchoStar). ER0025-26. But the resulting award ($12,972,547.91) was far in excess of what would have been necessary to yield a "larger sum of attorney's fees" to EchoStar. ER0026-27.

Finally, if the District Court's $5 million bonus purports to be based on the

"results obtained" by EchoStar, it is unsupportable. ER0026. The Supreme Court has decreed that, absent extraordinary circumstances, a court cannot base a fee adjustment on the "results obtained" because that factor is subsumed into the calculation of the lodestar figure. *Delaware Valley*, 478 U.S. at 564-65; *see Intel*, 6 F.3d at 622 (same); *Jordan*, 815 F.2d at 1262 n.6 (same); *Cunningham v. County of Los Angeles*, 879 F.2d 481, 488 (9th Cir. 1988) (same).

A $5 million bonus based on the results obtained can be reconciled with neither the District Court's finding that EchoStar's original fee request was "not reasonable" given the "limited success" achieved nor its reduction of the lodestar by 50 percent. ER0025-26. This internal inconsistency is also grounds for reversal. In *Ferland*, this Court reversed a fee award in part because the district court failed to "explain the apparent internal contradiction in its reasoning." 244 F.3d at 1149. The district court found that it was unnecessary to reduce the lodestar based on counsel's inefficiency, but it then proceeded to "grant a wholesale discount on the total number of hours" without any explanation. *Id*.

IV. THE DISTRICT COURT ERRED BY DENYING NDS ITS COSTS AND BY GRANTING ECHOSTAR OVER $236,000 IN TAXABLE COSTS.

A. NDS Was Entitled To Recover Its Taxable Costs.

As the prevailing party on twenty-six of EchoStar's twenty-nine claims, and as the prevailing party on the single theory of liability asserted against it, NDS

should have recovered its taxable costs. Despite NDS's success, the District Court denied NDS's application. ER0027. This was an abuse of discretion.

In the Ninth Circuit, there is a "strong presumption" in favor of awarding costs to a prevailing party. *See Miles v. State of Cal.*, 320 F.3d 986, 988 (9th Cir. 2003); C.D. Cal. L.R. 54-1 ("Unless otherwise ordered by the Court, a prevailing party shall be entitled to costs."). Moreover, as the prevailing party under the CPC (*see* Section I.B. *supra*), NDS was entitled to a mandatory award of costs. Cal. Penal Code § 593e(d). The District Court failed to comply with either directive.

The District Court also erred in failing to explain its denial of costs to NDS. ER0027. The failure to provide an explanation for the denial of costs to a prevailing party constitutes reversible error. *Trans Container*, 752 F.2d at 488 (vacating trial court's order denying costs to prevailing party for failure to specify reasons); *Subscription Television, Inc. v. S. Cal. Theatre Owners Ass'n*, 576 F.2d 230, 234 (9th Cir. 1978) (same).

NDS submitted a Bill of Costs for costs expressly authorized by C.D. Cal. L.R. 54-1, which totaled $414,560.62. ER0852-53. EchoStar did not challenge any specific costs NDS requested. The District Court should have granted NDS those costs.

B. The District Court Improperly Granted EchoStar Taxable Costs.

Compounding the error of failing to grant NDS its costs, the District Court

awarded EchoStar over $236,000 in taxable costs, despite its recovery of less than $2,000. ER0001-05. That award was in error because EchoStar never made any showing that its costs were reasonably incurred to establish NDS's liability for the P1 Test. The District Court also failed to evaluate the costs award in light of the overall results obtained by EchoStar.

A party seeking costs bears the burden of "showing the necessity of the costs incurred." *See Crandall v. City & County of Denver*, 594 F. Supp. 2d 1245, 1247 (D. Colo. 2009); *Sevenson Envtl. Servs., Inc. v. Shaw Envtl., Inc.*, 246 F.R.D. 154, 155 (W.D.N.Y. 2007). Here, EchoStar failed to make any showing that its costs were incurred to establish NDS's liability for the P1 Test, a theory that EchoStar never asserted and NDS never denied. As the District Court noted in denying EchoStar's motion for non-taxable costs:

> EchoStar may only recover those costs reasonably incurred in establishing NDS's liability for the P1 Test, as that is the only theory upon which EchoStar prevailed at trial—and Plaintiffs have not separated out their costs according to what was expended on establishing NDS's liability for the P1 Test.

ER0008. EchoStar similarly failed to meet its burden with respect to taxable costs. Nevertheless, the District Court granted EchoStar taxable costs on the ground that the CPC and Communications Act purportedly "mandate a recovery of costs" to a prevailing party. ER0005. But nothing in those statutes requires an award of costs regardless of the purpose for which they were incurred.

The District Court also failed to limit EchoStar's recovery based on its limited success in the case. In *McCown*, this Court reversed a costs award of $15,000 because the district court failed to "adequately consider [the plaintiff]'s limited success" in recovering less than one-fourth of the damages sought in his complaint. 565 F.3d at 1105. Here, EchoStar recovered a miniscule fraction of the relief it sought in the case, but the District Court still awarded EchoStar all taxable costs.

CONCLUSION

NDS defeated EchoStar's single theory of liability and request for over $2 billion. EchoStar succeeded only in obtaining trivial relief based on the investigatory P1 Test that NDS never denied and that EchoStar never pled or argued. Nonetheless, the District Court failed to recognize NDS as the prevailing party on EchoStar's claims and awarded NDS no costs. Of the $23.5 million in fees that NDS incurred over more than five years to defeat EchoStar's single theory of liability and enormous requests for relief, the District Court awarded less than $9 million. Compounding these errors, the District Court awarded EchoStar fees and costs for claims on which EchoStar did not succeed and that were unrelated to EchoStar's token success involving the P1 Test and also awarded EchoStar a further $5 million bonus. The District Court ultimately awarded EchoStar nearly $13 million despite EchoStar having recovered less than $2,000 of

the over $2 billion it requested. These decisions were an abuse of discretion and must be reversed.

Dated: August 12, 2009

Respectfully submitted,

s/Darin W. Snyder
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CERTIFICATE OF COMPLIANCE

I hereby certify that this brief complies with type-volume limitations of Fed. R. App. P. 28.1(e)(2)(A)(i) because it contains 13,702 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii).

Dated: August 12, 2009

Respectfully submitted,

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REQUEST FOR ORAL ARGUMENT

Defendants-Appellants NDS Group PLC (n/k/a NDS Group Limited) and NDS Americas, Inc. respectfully request that oral argument be allowed in this matter.

STATEMENT OF RELATED CASES

Pursuant to Ninth Circuit Rule 28-2.6, Defendants-Appellants NDS Group PLC (n/k/a NDS Group Limited) and NDS Americas, Inc. state that this case is not related to any appeals pending in this Court.

Dated: August 12, 2009

Respectfully submitted,

s/Darin W. Snyder
Darin W. Snyder
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Attorneys for Defendants-Appellants
NDS Group Limited and NDS Americas, Inc.

CERTIFICATE OF ELECTRONIC SERVICE

I am a citizen of the United States and employed in San Francisco County, California. I am over the age of eighteen years and not a party to the within action. I am employed in the county where the service described below occurred. My business address is Two Embarcadero Center, 28th Floor, San Francisco, California 94111-3823.

DEFENDANTS-APPELLANTS NDS GROUP LIMITED'S AND NDS AMERICAS, INC.'S PRINCIPAL BRIEF

I hereby certify that I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system, on August 12, 2009.

I certify that all participants in the case are registered by CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

s/ Michael O'Donnell
Michael O'Donnell