

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE**

PRINCETON DIGITAL IMAGE
CORPORATION,

Plaintiff,

v.

OFFICE DEPOT INC.,

Defendant.

PUBLIC - REDACTED VERSION

C.A. No. 13-239

PRINCETON DIGITAL IMAGE
CORPORATION,

Plaintiff,

v.

J.C. PENNEY COMPANY, INC.,

Defendant.

C.A. No. 13-287

PRINCETON DIGITAL IMAGE
CORPORATION,

Plaintiff,

v.

QVC INC.,

Defendant.

C.A. No. 13-288

PRINCETON DIGITAL IMAGE
CORPORATION,

Plaintiff,

v.

SEARS HOLDINGS COMPANY,

Defendant.

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C.A. No. 13-289

[REDACTED]

PRINCETON DIGITAL IMAGE
CORPORATION,

Plaintiff,

v.

LIMITED BRANDS, INC.,

Defendant.

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C.A. No. 13-326

[REDACTED]

PRINCETON DIGITAL IMAGE
CORPORATION,

Plaintiff,

v.

GAP INC.,

Defendant.

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C.A. No. 13-330

[REDACTED]

C.A. No. 13-331

C.A. No. 13-404

C.A. No. 13-408

Pending before the Court are (1) Intervenor Adobe System Incorporated's ("Adobe")¹ request for \$44,183.60 in attorney fees and expenses (*see* D.I. 110 at 1-2);² (2) Adobe's Motion to Amend its Complaint in Intervention (D.I. 115)³ ("Motion to Amend"); and (3) disputes in the parties' Joint Status Report submitted January 4, 2017 (D.I. 171). For the reasons below, and in accordance with the Court's instructions below, **IT IS HEREBY ORDERED** that:

1. Adobe's Motion to Amend is **GRANTED**.
2. Adobe shall be awarded its reasonable attorney fees incurred in litigating the issue of Plaintiff Princeton Digital Image Corporation's ("Plaintiff" or "PDIC") default in C.A. No. 13-408, to be calculated at an hourly rate of [REDACTED], after Adobe complies with the Court's order to supplement its billing-record disclosures (discussed below).
3. The parties shall meet and confer and, no later than **January 31, 2017**, submit a proposed redacted version of this Memorandum Order.
4. The parties shall meet and confer and, after Adobe supplements its disclosure of billing records to PDIC, but no later than **February 15, 2017**, submit two-page letter briefs in support of the parties' proposals for the number of hours the Court should use in its "lodestar" calculation, as discussed below.

The parties' disputes in the Joint Status Report are resolved in the remainder of this

¹The Court previously granted Adobe's Omnibus Motion to Intervene as a matter of right pursuant to Rule 24(a)(2) and permissively pursuant to Rule 24(b)(1)(B). (*See* D.I. 48)

²All docket citations are to C.A. No. 13-408 unless otherwise specified.

³This citation is to the Motion to Amend filed in C.A. No. 13-408. An identical motion was filed in each of C.A. Nos. 13-239, -287, -288, -289, -326, -330, -331, and -404 (collectively, "Related Suits"). The Court's ruling applies to all of these motions, even though this Order expressly refers only to the motion filed in C.A. No. 13-408.

Order, as set out below.

I. BACKGROUND

In 2013, PDIC filed C.A. No. 13-408 (“Nordstrom Suit”), along with Related Suits, against multiple defendants, including Nordstrom.com LLC, Nordstrom.com Inc., and Nordstrom Inc. (collectively, “Nordstrom”). Adobe alleges that Nordstrom and the defendants in Related Suits are Adobe customers. (D.I. 115-1 ¶ 27) On November 26, 2014 Adobe moved to intervene in the Nordstrom Suit and Related Suits. (*See, e.g.*, D.I. 14) Adobe argued that it had a right to intervene due to its customers’ requests for indemnity and because of PDIC’s refusal to “engage in further discussions” with Adobe, which would have been necessary to “clarify and resolve” the lawsuits. (*See* D.I. 15 at 9, 11) The Court granted Adobe’s motion to intervene on May 5, 2015. (*See* D.I. 48)

On May 8, 2015, Adobe filed a complaint in intervention in the Nordstrom Suit (D.I. 50) and Related Suits. On May 29, 2015, PDIC filed an answer to Adobe’s complaint in intervention and counterclaim in the Related Suits, but *not* in the Nordstrom Suit. (*See, e.g.*, C.A. No. 13-404 D.I. 50) PDIC never responded to Adobe’s original complaint in the Nordstrom Suit. Consequently, on March 8, 2016, the Clerk of Court entered default against PDIC. (*See* D.I. 88) PDIC filed a motion to set aside the default on March 11, 2016. (D.I. 89)

On August 16, 2016, the Court issued a Memorandum Order granting PDIC’s motion to set aside the default, but the Court also granted Adobe monetary sanctions “in light of PDIC’s culpable conduct in failing to answer Adobe’s complaint.” (D.I. 106 at 1, 5) The Court ordered the parties to “meet and confer and attempt to agree on the amount PDIC must pay Adobe as a monetary sanction.” (*Id.*) The Court further ordered: “If no agreement can be reached, the

parties shall present their competing proposals with the joint status report due on August 30.”

(*Id.*)

The parties filed their competing proposals in a joint status report on August 30, 2016.

(D.I. 110) Adobe requested \$44,183.60 and stated that, “[i]f requested by the Court, Adobe is willing to submit the underlying documentation” supporting Adobe’s requested amount “for *in camera* review.” (*Id.* at 1-2) For its part, PDIC argued that “[t]he Court should dismiss Adobe’s fee petition, because it is contrary to governing law.” (*Id.* at 4) PDIC argued that Adobe did not submit the factual detail required to support its fee petition, including a breakdown of hours worked and the billing rates of Adobe’s attorneys. (*Id.* at 5-6)

On September 28, 2016, Adobe submitted a timely Motion to Amend its complaint. (D.I. 115) PDIC opposes Adobe’s Motion to Amend, arguing that Adobe’s amendment would be futile and that Adobe failed to comply with Local Rule 7.1.1 – which requires “oral communication” involving “Delaware counsel for any moving party and Delaware counsel for any opposing party” as well as an “averment of counsel for the moving party” that efforts to have such communications were made. (*See generally* D.I. 122) Adobe responds that (1) amendment would not be futile; (2) PDIC would suffer no prejudice as a result Adobe’s amendment; and (3) leave to amend should be “freely given,” because there is no “apparent or declared reason” not to give leave here, such as “undue delay, bad faith or dilatory motive on the part of the movant, repeated failure to cure deficiencies by amendments previously allowed, undue prejudice to the opposing party by virtue of allowance of the amendment, futility of amendment, etc.” (D.I. 125 at 1) (quoting *Foman v. Davis*, 371 U.S. 178, 182 (1962))

The Court held a teleconference regarding discovery matters on November 8, 2016,

during which the Court directed Abode to “submit for *in camera* review the underlying documentation” on which Adobe relies for its request for fees. (D.I. 144 at 13) The Court further ordered the parties to meet and confer regarding submission of “short letters” regarding what each side thought would be “reasonable fees.” (*Id.*) The parties submitted a joint proposal to simultaneously submit briefs addressing the fees issue on November 30, 2016 (D.I. 136 at 3), which the Court adopted on November 14, 2016. The parties submitted their briefs on November 30. (D.I. 148, 150) Adobe also submitted, for *in camera* review, its billing records.

II. ADOBE’S MOTION TO AMEND ITS COMPLAINT (D.I. 115)

A. Legal Standards

Rule 15(a)(2) of the Federal Rules of Civil Procedure provides that, after a responsive pleading has been filed, a party may amend its pleading “only with the opposing party’s written consent or the court’s leave,” and that “[t]he court should freely give leave when justice so requires.” The decision to grant or deny leave to amend lies within the discretion of the court. *See Foman*, 371 U.S. at 182; *In re Burlington Coat Factory Secs. Litig.*, 114 F.3d 1410, 1434 (3d Cir. 1997). The Third Circuit has adopted a liberal approach to the amendment of pleadings. *See Dole v. Arco*, 921 F.2d 484, 487 (3d Cir. 1990). In the absence of undue delay, bad faith, or dilatory motives on the part of the moving party, the amendment should be freely granted, unless it is futile or unfairly prejudicial to the non-moving party. *See Foman*, 371 U.S. at 182; *In re Burlington*, 114 F.3d at 1434.

An amendment is futile if it is frivolous, fails to state a claim upon which relief can be granted, or “advances a claim or defense that is legally insufficient on its face.” *Koken v. GPC Int’l, Inc.*, 443 F. Supp. 2d 631, 634 (D. Del. 2006). Delay alone is an insufficient reason to deny

leave to amend, but there is grounds to deny amendment if the delay is coupled with either an unwarranted burden on the court or undue prejudice to the non-moving party (as a result of the amendment). *See Cureton v. Nat'l Collegiate Athletic Ass'n*, 252 F.3d 267, 273 (3d Cir. 2001).

A party may suffer undue prejudice if the proposed amendment causes surprise or results in additional discovery, additional costs, or additional preparation to defend against the new facts or theories alleged. *See id.*

B. Discussion

By its motion to amend, Adobe seeks leave to add a claim for restitution damages. The Court agrees with Adobe that this claim is not futile. For example, Adobe could prove restitution damages if it is ultimately determined that Adobe did not get the benefit of its bargain in the Adobe-PDIC license agreement, because at least some of Adobe's customers were not protected from suit, as provided for in the agreement. (*See generally* Proposed Amended Complaint, D.I. 115-1 ¶¶ 39-44) In addition, the Court agrees with Adobe that PDIC has put forward no evidence of prejudice, surprise, delay, additional costs, or preparation that will be necessitated as a result of the proposed amendment. In short, PDIC puts forward no reason sufficient under *Foman* for the Court to deny Adobe's motion.

Adobe appears to admit that it failed to comply with Rule 7.1.1's requirement that "oral communication" be part of the meet and confer process. This failure to comply with the Local Rule is unfortunate. However, under the totality of circumstances, denial of Adobe's otherwise compliant proposed amendment would not be warranted, particularly given Rule 15's instruction

to “freely give leave when justice so requires,” as it does here.⁴

III. ADOBE’S REASONABLE ATTORNEY FEES (D.I. 110 at 1-2)

A. Legal Standards

In calculating reasonable attorney fees, the Court employs the “lodestar” approach. *See Brytus v. Spang & Co.*, 203 F.3d 238, 242 (3d Cir. 2000). “The Third Circuit has defined the lodestar method as the initial estimate of a reasonable attorney’s fee . . . [which is] properly calculated by multiplying the number of hours reasonably expended on the litigation times a reasonable hourly rate.” *Student Pub. Interest Research Grp. v. AT&T Bell Labs.*, 842 F.2d 1436, 1441 (3d Cir. 1988) (internal quotation marks omitted); *see also Pub. Interest Research Grp. of N.J., Inc. v. Windall*, 51 F.3d 1179, 1188 (3d Cir. 1995) (calculating reasonable hours requires that court “review the time charged, decide whether the hours set out were reasonably expended for each of the particular purposes described and then exclude those that are excessive, redundant, or otherwise unnecessary”) (internal quotation marks omitted). Hours are not reasonably expended if they are “excessive, redundant, or otherwise unnecessary.” *Hensley v. Eckerhart*, 461 U.S. 424, 434 (1983); *see also Rode v. Dellarciprete*, 892 F.2d 1177, 1183 (3d Cir. 1990).

The prevailing community market rates assist the Court in determining a reasonable hourly rate. *See Blum v. Stenson*, 465 U.S. 886, 895 (1984). Adobe bears the burden of establishing the reasonableness of both the time expended and the hourly rates. *Cf. Hensley*, 461 U.S. at 434; *Blum*, 465 U.S. at 895 n.11. The Court may exclude from the lodestar calculation

⁴In so holding, the Court does not intend to suggest that parties are free to choose when and whether to comply with the Local Rules. It is simply that, here, Adobe’s failure to comply does not warrant as a response that Adobe’s motion be denied.

unnecessary hours or hours that lack proper documentation. *See Hensley*, 461 U.S. at 434.

Calculation of the lodestar does not end the inquiry, as the Court may adjust the lodestar upward or downward. Fees may be adjusted “downward if the lodestar is not reasonable in light of the results obtained.” *Rode*, 892 F.2d at 1183 (citing *Hensley*, 461 U.S. at 434-37). In adjusting the lodestar, the Court may consider twelve factors (the “Johnson factors”).⁵ *See Hensley*, 461 U.S. at 434. A party seeking adjustment of the lodestar bears the burden of proving the necessity of the adjustment. *See Blum*, 465 U.S. at 898.

B. Discussion

1. Applicable Rate

PDIC argues that “a non-complex motion for default,” such as the motion that was at issue here, warrants application of “the local rates in Delaware.” (D.I. 150 at 4) The Court agrees with PDIC. The default-related issues in this case were not issues that required the “special expertise of counsel from a distant district.” *Interfaith Cmty. Org. v. Honeywell Int’l, Inc.*, 726 F.3d 403, 413 (3d Cir. 2013) (internal quotation marks omitted). In addition, Adobe has not shown that local counsel was “unwilling to handle” the default-related issues. *Id.* (internal quotation marks omitted). Adobe avers that its local counsel in this case, Mr. Dorsney, has an hourly rate of [REDACTED]. PDIC suggested, without citation to any evidence, that an hourly

⁵The twelve factors are: (1) the time and labor required; (2) the novelty and difficulty of the question; (3) the skill requisite to perform the legal service properly; (4) the preclusion of other employment by the attorney due to acceptance of the case; (5) the customary fee; (6) whether the fee is fixed or contingent; (7) time limitations imposed by the client or the circumstances; (8) the amount involved and the results obtained; (9) the experience, reputation, and ability of the attorney; (10) the undesirability of the case; (11) the nature and length of the professional relationship with the client; and (12) awards in similar cases. *See Johnson v. Ga. Highway Express, Inc.*, 488 F.2d 714, 717-19 (5th Cir. 1974).

rate of “less than” \$555.56 may be appropriate. (*See* D.I. 110 at 7) (suggesting nine hours as reasonable amount of billable time for default-related matters and “less than \$5,000” as reasonable award) Because PDIC submitted no evidence in support of its proposed rate, the Court will use Adobe’s hourly rate of [REDACTED] in calculating the lodestar.

2. Hours

Before determining the reasonableness of the hours Adobe’s attorneys spent working on default-related issues, Adobe shall produce: (1) the seven-page billing summary that was submitted *in camera* to the Court in redacted form to PDIC with **only** the narrative sections redacted, (2) an identification of which case event(s) or brief(s) or other filing(s) each billing entry is related to, and (3) the task and activity codes associated with each billing entry. This will provide PDIC with the necessary information to assess the reasonableness of Adobe’s requested fees, without waiving privilege as to Adobe’s narrative entries. Thereafter, the parties will submit to the Court the short letter briefs described earlier in this Order.

IV. DISPUTES IN JOINT STATUS REPORT (D.I. 171)

Having reviewed the parties’ Joint Status Report (D.I. 171), **IT IS HEREBY**

ORDERED that:

1. Any relief requested by Adobe with respect to PDIC’s production of licenses and financial information is **DENIED**, given that PDIC’s production (accepting, as true, PDIC’s representations) is sufficient to comply with PDIC’s discovery responsibilities (*see id.* at 5).
2. By February 3, 2017, William Meagher shall produce any relevant documents that have not already been produced in response to Adobe’s subpoena, which was served on November 10, 2016.

3. Adobe shall produce billing records in support of its damages claim, on an item-by-item basis, including the following:

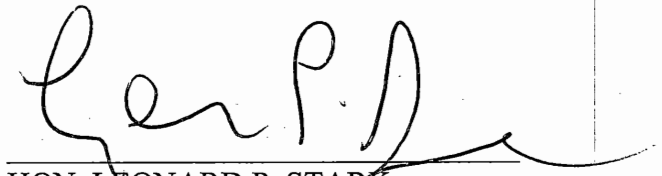
- (a) full records with *only* the narrative sections redacted;
- (b) identification of each of the case(s) in which each billing entry was incurred;
- (c) activity and task codes for each billing entry;
- (d) the categorical identification set forth in Adobe's proposal (*see id.* at 6-7); and
- (e) some identification of which case *event(s)* or *brief(s)* or other *filing(s)* to which each billing entry is related.

4. The 30(b)(6) deposition noticed by PDIC on December 21, 2016 shall proceed after Adobe complies with the Court's order to produce more detail regarding its billing records;

5. Adobe shall supplement its interrogatory responses, to the extent necessary to comply with its discovery obligations.

6. The parties' joint-proposed, amended scheduling deadlines are **ADOPTED** (*see id.* at 13-14), with the exception that Adobe's production regarding billing records shall be completed by **February 3, 2017** and all other discovery, including depositions, document production, and interrogatory supplementation, shall be completed by **February 15, 2017**.

The Court does not view its order regarding Adobe's billing records as requiring Adobe to waive privilege as to the content of its billing narratives.


HON. LEONARD P. STARK
UNITED STATES DISTRICT COURT