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UNITED STATES DISTRICT COURT
DISTRICT OF ARIZONA

Designer Skin, LLC, an Arizona limited liability company; Splash Tanning Products, LLC, an Arizona limited liability company; Boutique Tanning Products, LLC, an Arizona limited liability company, Plaintiffs, vs. S&L Vitamins, Inc. d/b/a Body Source d/b/a thesupplenet.com, a New York corporation; and Larry Sagarin, an unmarried individual, Defendants.	Case No.: CV05-3699-PHX-JAT **DEFENDANTS' REPLY MEMORANDUM IN SUPPORT OF THEIR MOTION FOR COSTS PURSUANT TO FED. R. CIV. P. 68**

Defendant S&L Vitamins, Inc. d/b/a/ Body Source d/b/a thesupplenet.com, a New York corporation ("S&L") hereby submits the following Reply to Plaintiff's [*sic*] Response to Defendant's Motion for Costs Pursuant to Fed. R. Civ. P. 68. Defendants' Reply is supported by attached Memorandum of Points and Authorities and the entire record in this matter.

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

Defendants' Motion for Costs Pursuant to Fed. R. Civ. P. ("Rule") 68 raises two narrow issues for the Court to resolve. The first is whether under Rule 68, the facts of this case require that Defendants' be awarded costs incurred subsequent to Defendants' offer dated June 13, 2008. And the second is whether S&L's motion was procedurally sound in light of Local Rule 54.1, requiring a Bill of Costs to be filed by Defendants within ten days of the Court's Finding of Facts and Conclusions of Law dated September 5, 2008 (Dkt. No. 123). The undisputed facts in this case and analysis of the applicable legal rules make clear that the answer to both questions is yes.

II. ARGUMENT

Plaintiffs (collectively "Designer Skin") devote most of their brief to trivial issues alleging a lack of written consent to electronic service under Fed. R. Civ. P. 5(b)(2)(E) and the alleged inadequacy of S&L's offer under Rule 68. These petty issues are easily resolved by a proper consideration of the applicable law and facts, and the undisputed facts demonstrate that S&L is entitled to a recovery of costs from June 13, 2008 forward.

A. Plaintiffs Waived Any Right To Dispute Defendants' Alleged Defective Method of Service

Designer Skin claims that S&L's motion should be denied due to a defect in service of Defendants' offer under Fed. R. Civ. P. 5(b)(2)(E). *See* Pltfs' Br. (Dkt. No. 127) at 2-3. But there is no defect where, as here, a party not only receives actual notice in the manner by which service has been accepted by both parties throughout the

litigation, but affirmatively responds utilizing the same alleged defective method.

Courts in this Circuit have had no difficulty finding that a party's own service of discovery documents via email negates any argument that an adversary has failed to comply with the requirements of Fed. R. Civ. P. 5(b)(2)(E)) by using email too. *See Greenly v. Lee*, No. CIV S-06-1775(WBS), 2008 WL 298822, at *1 (E.D. Cal. Feb. 1, 2008). Plaintiffs rely on *Magnuson v. Video Yesteryear,* 85 F.3d 1424 (9th Cir. 1996), which involved a faxed Rule 68 offer. They insist that Rule 5(b)(2)(E) specifically mandates that "electronic" service may only be used in instances where there is a explicit writing consenting to such a method. *See* Pltf's Br. (Dkt. No. 127) at 2; Rule 5(b)(2)(E). But not only did the party making the Rule 68 offer in *Magnuson* submit no argument or facts to explain why its offer was transmitted by facsimile, the facts of *Magnuson* differ from the instant case in several material respects that render plaintiffs' reliance on that decision futile.

In *Magnuson*, the court addressed: (1) whether private overnight mail services such as Federal Express constituted "mail" under Rule 5(b) and the Federal Rules of Civil Procedure generally; and (2) whether actual notice served as an exception to the requirements set forth in Rule 5(b). In answering both questions in the negative, the court relied on *Salley v. Board of Governors, University of North Carolina, Chapel Hill, N.C.* 136 F.R.D. 417, 420 (M.D.N.C., 1991) in concluding that "some other compelling circumstance, in addition to actual notice…" must be advanced for a court to "excuse noncompliance with Rule 5(b)." *Maguson*, 85 F.3d at 1431 *citing Salley*, 136 F.R.D. at 420.

Here, as enunciated in *Magnuson* and applied in cases such as *Greenly v. Lee*, there is "exceptional good cause" to find mutual consent to electronic service. As stated in Defendants' opening brief, Designer Skin **responded** to S&L's Rule 68 offer, transmitted by email, via **email** on June 20, 2008 – a point that Plaintiffs have not, nor cannot dispute. *See* Defts' Br. (Dkt. No. 125) at 3-4; Exhibit B. Again, as already stated, email was the dominant mode of not only of correspondence, but of **service** for both parties throughout almost the entire litigation process. *See id.* at 4-5. Furthermore, whereas the party receiving the defective offer in *Magnuson* rejected it on the grounds of service, 85 F.3d at 1427, here Plaintiffs did not object at any stage and – quite unlike the case in *Magnuson* – substantively communicated their rejection by the very method of communication to which they now deny every having consented!

Indeed, Plaintiffs' email response to Defendants' offer on June 20 is properly distinguished from instances where a party fails to respond at all to an opposing party's improper service, but rather, here, at a minimum, created an implied acceptance of service by waiver.[1] *See Occidental Life Ins. Co. v. Jacobson*, 15 Ariz. 242, 245, 137 P. 869, 870 (1914) ("'Waiver is where one in possession of any right, whether conferred by law or contract, and of full knowledge of the material facts, does or forbears the doing of something inconsistent with the existence of the right or of his intention to rely upon

[1] Such a conclusion is underscored by the fact the Plaintiffs not only conceded actual notice in their June 20 email, but further requested that S&L take alternative action, namely, the withdrawal of its offer. *See* Deft's Br. (Dkt. No. 125) at 3. *See Tan v. U.S. Dept. of Justice, I.N.S.* 931 F. Supp. 725, 726 n.1 (D. Hawaii, 1996)(noting that a claim of improper service is waived where: (1) service is accepted; (2) a response is made; and (3) good faith communications with opposing counsel occur). Obviously Plaintiffs considered the offer very much effective, or there would have been nothing to "withdraw."

it.'") (citation omitted). Because Plaintiffs waived their objection to improper service by responding to, and suggesting withdrawal of, Defendants' offer using the very same method that they now take issue with, Defendants' Rule 68 was effectively served on June 13. In light of the foregoing, S&L's Motion for costs should be granted pursuant to Rule 68(d).

B. Plaintiffs' Assertion that Defendants Are Not Entitled to Certain "Taxable" Costs Is Incorrect

Plaintiffs claim that Defendants are not entitled to taxable costs because they did not file a Bill of Costs needed to recover costs under Rule 54(d) within the required 10 days after judgment as set forth in Local Rule 54.1. *See* Pltf's Br. (Dkt. No. 127) at 6. As already noted, as a simple matter of common sense this argument should be rejected, because prior to its September 5 Order, the Court did not have before it an application, or any other information, regarding Defendants' Rule 68 offer. *See* Deft's Br. (Dkt. No. 125) at 5; nor could it have. Because the Court's final Order did not provide for an award of costs on the bases urged by the respective parties at that time, Local Rule 54.1 was not applicable at that time. *See id.*

For that matter, the law is clear that where cost-shifting is expressly authorized by statute, as it is here as set forth in Rule 68 as conferred by The Rules Enabling Act, 28 U.S.C. §2072, the limitations of Rule 54 and corresponding Local Rules do not apply. *See, e.g., Jordan v. Equifax Information Services, LLC*, 549 F.Supp.2d 1372, 1375 n.5

(N.D.Ga., 2008) *citing Dowdell v. City of Apopka, Florida*, 698 F.2d 1181, 1188-89 (11th Cir. 1983); *Wheeler v. Durham City Bd. of Ed.*, 585 F.2d 618, 623 (4th Cir. 1978).

Plaintiffs' procedural argument has in any event been rejected in this District where, as here, the party making it fails to demonstrate, much less enunciate, prejudice by virtue of the supposed delay. *See Hoskins v. Metropolitan Life Ins. Co.*, No. CV-06-1475 (PHX), 2008 WL 2328741, at *2 (D. Ariz., June 4, 2008)("No prejudice to the defendants having been shown, plaintiff may submit a bill of costs in accordance with LRCiv 54. 1, no later than ten days after the entry of this order.")

C. Defendants' Offer Pursuant to Rule 68 Was Clear and Unambiguous

Plaintiffs argue, rather cynically, that Defendants' Motion must be denied because of the existence of supposed "ambiguity" in Defendants' Rule 68 offer. Pltf's Br. (Dkt. No. 127) at 3-4. Specifically, Plaintiffs pretend to believe that S&L's offer of June 13 does not meet the standards of Rule 68 because S&L: (1) used the term "photograph" rather than "electronic rendering;" (2) failed to "acknowledge" infringement; and (3) failed to specify which photographs were the subject of the offer. *See id.*, at 4.

Plaintiffs cite to a litany of cases from outside the jurisdiction, many of which are factually inapplicable[2], for the general proposition that anything short of total

[2] For example, Designer Skin cites to *Gavoni v. Dobbs House, Inc.*, 164 F.3d 1071 (7th Cir. 1999) in support of its argument that a lack of precision in S&L's offer is fatal. *See* Pltf's Br. (Dkt. No. 127) at 3. But, Plaintiff's citation is inapposite here because the case's holding was specifically limited to instances of a Rule 68 offer to multiple unrelated plaintiffs. In delivering its holding, the court noted that each party had to be afforded a clear baseline from which to understand and evaluate the relative strength of their case vis-à-vis their respective claims and the value of the offer as a whole. By contrast, Plaintiffs here were essentially unitary for all purposes. Consequently, the holding in *Gavoni* is inapplicable to this case.

exactitude in a Rule 68 offer, invalidates the offer *ab initio*. Besides the fact that such a reading of the Rule would render an offer made under the Rule almost worthless, S&L's June 13 offer was not in the least ambiguous, as set forth in Defendants' moving papers.

In the Court's Order dated May 19, 2008 (Dkt. No. 76), this Court held "the copyright-infringement claim will proceed to trial on the issue of whether the images on S & L Vitamins' websites are either copies of Designer Skin's electronic renderings or **photographs** of the products themselves." *Id.* at 16 (Emphasis added). Concerning the images at issue, S&L's Rule 68 offer of June 13 stated:

> … In addition, S&L offers to enter into a stipulated injunction, subject to the Court's approval and ongoing jurisdiction for enforcement, by which S&L would be bound not to utilize any copyrighted **photographs** of Designer Skin for any purpose.

Deft's Br. (Dkt. No. 125) at 3; Exhibit A. (Emphasis added). Accordingly, S&L's reference to the subject matter in its Rule 68 offer as "photographs" rather than "electronic renderings" was not incorrect nor ambiguous, but rather, merely reflected Defendants' position taken throughout the course of this litigation – a position further recognized by this Court and framed as a triable issue in its May 19, 2008 Order.

Even assuming *arguendo* that Defendants' offer had been ambiguous, which it was not, Plaintiffs' argument concerning how Rule 68 offers are to be construed – hyper-literally – stands in sharp contrast to the Ninth Circuit's well-articulated position on the matter. In *Erdman v. Cochise County*, 926 F.2d 877, 880 (9th Cir. 1991), a case arising in Arizona, the court held that while settlement agreements are to be analyzed in a manner similar to that of contracts, i.e., where ambiguities are construed against the

drafter, "[w]here necessary, district courts are authorized to look to extrinsic evidence to clarify ambiguities as to the intended meanings of material terms." *Id.*; *Herrington v. County of Sonoma*, 12 F.3d 901, 907 (9th Cir. 1993). Naturally such a rule of reason would apply to an offer of judgment. Given the Court's Order of May 19 it therefore becomes clearly evident that the subject matter referenced in Defendants' offer of June 13 was the disputed images – the **only** issue in the resulting copyright trial.

Moreover, Plaintiffs' argument concerning the alleged ambiguity in Defendants' offer is undermined by Plaintiffs' response[3], where, again, on June 20 Designer Skin asked S&L to withdrawal its offer in view of the then-pending mediation. *See* Deft's Br. (Dkt. No. 125) at 3; Exhibit B. Tellingly, Plaintiffs' response on June 20 does not reveal any confusion or any hint that Defendants offer of June 13 was in any way obfuscating. Nor does the response request clarification in any way. Rather, Plaintiffs' June 20 response was short and direct and further suggested a complete and total appreciation for Plaintiffs' original offer of June 13.

Finally, there is no authority for the proposition that a party offering to have judgment entered against it on a specific legal claim, and to suffer injunctive relief and pay fees and costs arising from the other party's prosecution of that claim, needs to

[3] Curiously, Plaintiffs contend that "[r]ather than give up its right to trial, Designer Skin could make no intelligent choice other than to **ignore** Defendant's [*sic*] ambiguous offer." Ptf's Br. (Dkt. No. 127) at 4. (Emphasis added). Of course, as noted above, Plaintiffs did not ignore Defendants' offer, but rather, clearly responded to it and further requested that Defendants take additional, if not altogether different action, namely, the withdrawal of their offer. *See* Deft's Br. (Dkt. No. 125) at 3; Exhibit B. It should also go without saying that Plaintiffs were not being asked to "give up" anything other than the chance to spend innumerable hours and dollars to get to the most likely best-case result for their client, in exchange for having that result served to them on a silver platter at great savings to both parties and the United States.

explicitly also "acknowledge" liability for that claim. Obviously such an offer is premised on a judicial admission of liability if accepted. The suggestion to the contrary scales new heights of cynicism by Plaintiffs.

In light of the above, and this Court's prerogative to further inquire, if at all necessary, into the "true" intent of Defendants' Rule 68 offer – should the Court even determine that such an inquiry is necessary – S&L's Rule 68 offer of June 13 cannot be considered ambiguous or otherwise defective. Accordingly, for the foregoing reasons, S&L's Motion for costs under Rule 68 should be granted.

D. Defendants' Offer Pursuant To Rule 68 Was Substantially The Same As The Relief Afforded To Plaintiffs As Set Forth In The Court's Findings Of Fact And Conclusions Of Law

As Plaintiffs correctly assert, "Rule 68 offers are much more common in money cases than equity cases, but nothing in the rule forbids its use in the latter type of case." *Chathas v. local 134 IBEW*, 233 F3d 508, 511 (7th Cir. 2000) *cert. denied*, 533 U.S. 949, 121 S. Ct. 2590, 150 L.Ed.2d 750 (2001). It is clear here that Defendants' June 13 offer was superior to the ultimate result obtained by Plaintiffs' at trial.

In addition to offering Plaintiffs an injunction that virtually mirrors that which was issued by the Court in its September 5 Order, as evidenced by the offer's inclusion of the language "**by which S&L would be bound not to utilize** any copyrighted photographs **for any purpose**," Defendants' June 13 Rule 68 offer also offered Plaintiffs compensation of $4,500 and payment of $500 in costs and attorney fees. *See* Pltf's Br. (Dkt. No. 125) at 3; Exhibit A. (Emphasis added). This is $5,000 more than Plaintiffs got

as costs and fees under the Courts' September 5 Order.

Because Defendants' offer of June 13 concerning both equitable and legal relief was comprised of an offer of money greater than Plaintiffs' monetary relief obtained at trial and an injunction at least equal to Plaintiffs' injunctive relief obtained at trial, Defendants' respectfully request that this Court reject Plaintiffs' claims to deny Defendants' recovery of costs under Rule 68.

III. CONCLUSION

For the foregoing reasons, and for the reasons stated in all of Defendants' papers in Defendants' Motion for Costs Pursuant to Fed. R. Civ. P. 68, Defendants respectfully request that this Court grant Defendants' Motion for Costs in its entirety pursuant to Fed. R. Civ. P. 68.

DATED this 6th day of October, 2008.

Respectfully submitted,

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