The Complaint Was Never Properly Served on Masthead. A.

As an initial matter, it appears that the Complaint was not properly served on Masthead, a Bulgarian company. Bethesda's first attempt to serve the Complaint in 4 5 September 2011 was improper because Bethesda failed to effect service in accordance with the standards set forth under The Hague Convention and Bulgarian law. In a 6

second attempt to effect service, Bethesda obtained from the Sofia District Court in

Bulgaria an order authorizing service on Atanas Atanasov, Masthead's President, at

Masthead's offices located at 102 Oborishte Street, Floor 3, Sofia, Bulgaria.

Declaration of Daniel E. Loeb ("Loeb Decl."), Ex. 3 at 33. In the event that Mr.

Atanasov was not found at that address, however, the Bulgarian court ordered that service could be effected upon a second address: 33 Tsvetan Lazarov Blvd. Id.

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Bethesda concedes that it did **not** follow these Court instructions. Indeed, the Loeb Declaration admits that service was purportedly made at the 102 Oborishte Street address upon a different individual, Georgi Alexandrov Petrov, who is not an officer or director of Masthead. Loeb Decl. at ¶ 12; Declaration of Atanas Atanasov ("Atansaov Decl.") at ¶ 15. But the Bulgarian court did **not** authorize service in this manner – its order expressly authorized service only on Mr. Atanasov at that particular address. Hence, not only was Bethesda's Complaint never properly served on Masthead, but Bethesda's entry of the default against Masthead was improper, as no response by Masthead has ever been required. See Timbuktu Educational v. Alkaraween Islamic Bookstore, No. C 06-03025 JSW, 2007 WL 1544790, at *4 (N.D. Cal. May 25, 2007) (denying motion for default judgment where service of process was improper).

B. <u>If Service of the Complaint on Masthead Was Proper, Then</u> Masthead's Default Was Due To Excusable Neglect.

It is well established that "default judgments are ordinarily disfavored" and "[c]ases should be decided upon their merits whenever reasonably possible." *Eitel v. McCool*, 782 F.2d 1470, 1472 (9th Cir. 1986). The following factors should be considered when exercising discretion as to the entry of a default judgment: "(1) the possibility of prejudice to the plaintiff, (2) the merits of plaintiff's substantive claim, (3) the sufficiency of the complaint, (4) the sum of money at stake in the action; (5) the possibility of a dispute concerning material facts; (6) whether the default was due to excusable neglect, and (7) the strong policy underlying the Federal Rules of Civil Procedure favoring decisions on the merits." *Id.* at 1471-72.

In light of these factors, even if Masthead was properly served with process, Bethesda's application for a default judgment should be denied, the default against Masthead should be stricken, and Masthead should be permitted to file its Answer to the Complaint, as Masthead's failure to respond to it was due entirely to excusable neglect.

More particularly, in March 2009, Masthead had agreed to develop a massively multiplayer online game (the "MMOG") for Interplay Entertainment Corporation ("Interplay"), and it is a dispute between Bethesda and Interplay, pending in the District Court of Maryland, that is really at the heart of the present litigation. *See Bethesda Softworks LLC v. Interplay Entertainment Corp.*, 8:09-cv-02357-DKC (D. Md.). Consequently, after Bethesda initially attempted to serve its Complaint on Masthead in September 2011, Interplay notified Masthead that Bethesda's Complaint papers had not been properly served and that Interplay would handle any response to

them that might ultimately be required from Masthead. Atanasov Decl. at ¶ 11. Further, Masthead's US counsel separately advised it that Bethesda had not served its Complaint in accordance with the requirements of The Hague Convention, and that, therefore, no response to the Complaint was required from Masthead. Atanasov Decl. at ¶ 12. Accordingly, Masthead reasonably believed that it was not required to take 6 any action with respect to the copy of the Complaint purportedly served on it in 7 September. Atanasov Decl. at ¶ 13. 8 9 Moreover, Masthead's failure to respond to the second purported service of the 10 Complaint (which was actually not proper for the reasons addressed in Section I. A. 11 above, so no response was in fact required) resulted solely from clerical error. 12 Although this second copy of the Complaint was served on October 20, 2011, on Mr. Petrov (in violation of the Bulgarian court's order), Mr. Petrov did not inform Mr. 13 14 Atanasov of such purported service on it because Mr. Petrov mistakenly believed that 15 such papers were the same as those previously sent to Masthead in September. Atanasov Decl. at ¶ 15. And, although Mr. Atanasov received two notices from 16 Bethesda in November, he mistakenly believed, based upon his prior communication 17 18 with Interplay, that Interplay would respond to Bethesda's Complaint on Masthead's 19 behalf if any response were needed. 20 21 C. Bethesda's Substantive Claims Lack Merit. 22 Bethesda's application for a default judgment should also be denied because its 23 24 25 It was certainly reasonable for Mr. Petrov to believe that these papers were of no different or added legal effect than those previously served on Masthead in September 2011, given that 26 Bethesda's attorney, Mr. Loeb, had expressly advised Masthead in the attachment to Mr. Loeb's September 14, 2011 letter that Masthead would have 60 days (that is, up to and including November 27 13, 2011) to return the waiver of service form, which time had not yet expired. See Atanasov Decl.

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at Ex. A, Notice of a Lawsuit, Paragraph 2.

substantive claims against Mastnead tack merit. As Mr. Atanasov's Declaration
makes clear, none of Masthead's limited work for Interplay made use of any of the
intellectual property assets that Bethesda contends it owns in its dispute with
Interplay. Atanasov Decl. at ¶¶ 6 and 7. Masthead's work for Interplay consisted of
creating background artwork scenes based upon actual scenery from California and
Nevada, and creating generic animal and "mutant" characters for potential use in the
MMOG. Atanasov Decl. at ¶ 7. None of Masthead's work, therefore, infringed upon
any copyrighted elements of the video game "Fallout" that might be owned by
Bethesda and on which Bethesda bases its claims. Atanasov Decl. at ¶ 7. Moreover,
as noted above in Section I. B., the issue of ownership of these intellectual property
rights is currently the subject of a separate lawsuit between Bethesda and Interplay
that is currently pending in Maryland. Atanasov Decl. at ¶ 9. Still further,
Masthead stopped work for Interplay in or about May 2011, and has no plans to
perform any further work unless and until the dispute between Interplay and Masthead
is resolved in Interplay's favor. Atanasov Decl. at ¶ 8. Accordingly, Bethesda's
request for injunctive relief is moot.

Because Bethesda's substantive claims against Masthead lack merit, Bethesda's application for a default judgment should be denied.

D. <u>Denial Of Bethesda's Application Would Result In No Prejudice To</u> Bethesda.

Bethesda's Application for a default judgment should also be denied because Bethesda will suffer no prejudice in the absence of a default judgment. Indeed, when Bethesda attempted to serve its initial copy of the Complaint on September 14, 2011, Bethesda advised Masthead that it would have 60 days to notify Bethesda whether

Masthead would waive service, and an additional 30 days thereafter to answer it. Atanasov Decl. at ¶ 10. Accordingly, Bethesda's own initial offer did not require Masthead to respond to the Complaint until December 13, 2011, a date that has not yet arrived as of the date that this Opposition is being filed. Accordingly, Bethesda will suffer no prejudice in the event that its application for a default judgment is denied.

E. Bethesda Is Not Entitled To Attorneys' Fees And Costs.

Bethesda's request for attorneys' fees and costs is plainly improper. Federal Rule of Civil Procedure 4(d) provides for the recovery of attorneys' fees incurred in connection with any motion to collect service expenses from "a defendant located <u>in</u> the United States" that, without good cause, refuses to waive service (emphasis added). Hence, Rule 4(d) does not apply to Masthead, a Bulgarian company. Further, Bethesda did not even wait the 60 days stated in its offer before it retained a Bulgarian law firm to use the Bulgarian courts to try to effect service via the Hague Convention. Accordingly, Bethesda's request for attorneys' fees and costs should be denied.

II. <u>CONCLUSION</u>

In light of the strong policy in favor of decisions on the merits, and for all the foregoing reasons, Bethesda's application for a default judgment against Masthead, and for an award of attorneys' fees and costs, should be denied in its entirety.

DATED: December 5, 2011

Respectfully Submitted,

EDWARD A. RUTTENBERG LEOPOLD, PETRICH & SMITH, P.C.

Attorneys for Defendant MASTHEAD STUDIOS LTD.

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DECLARATION OF ATANAS ATANASOV

I, Atanas Atanasov, declare:

- I am the President of Masthead Studios, Ltd. ("Masthead"), the defendant in the present action. I live and work in Sofia, Bulgaria.
- 2. This Declaration is submitted in support of Masthead's Opposition to the Application of plaintiff Bethesda Softworks LLC ("Bethesda") for a default judgment. If called as a witness at the trial of this matter, I would and could competently testify to the facts contained herein, which are personally known to me.
- Masthead is a Bulgarian company that specializes in developing interactive gaming and entertainment software.
- 4. In or about March 2009, Masthead entered into a Product Development Agreement (the "Agreement") with Interplay Entertainment Corp. ("Interplay"), a Delaware corporation, for Masthead to develop a massively multiplayer online game ("MMOG") referred to as "Project V13" (the "Project").
- 5. Masthead entered into the Agreement with Interplay prior to Bethesda's commencement of litigation against Interplay concerning ownership of the intellectual property assets in the video game series known as "Fallout".
- 6. In connection with the Agreement, Masthead did only limited work with respect to the development of the Project. None of that work used any intellectual property assets from Fallout.
- 7. Most of the work that Masthead did on the Project involved creating some background artwork for scenes, most of which was based upon actual scenery from California and Nevada. The only other work that Masthead performed on the Project was artwork for animals and "mutant" characters typical of many postapocallyptic video games. Nothing that Masthead created in connection with the Project used or infringed upon any copyrighted elements of Fallout.

- 9. It is my understanding that there is a current lawsuit in Maryland between Interplay and Bethesda that will determine who has the rights to the intellectual property in issue. It is also my understanding that a trial of that lawsuit is scheduled to commence on December 12, 2011 that will ultimately determine who has the rights to the intellectual property in issue.
- 10. On or about September 14, 2011, I received a copy of the Complaint against Masthead filed by Bethesda in this action. It was sent to the office that I work in Bulgaria, located at Cvetan Lazarov Blvd. 33 floor 6, Sofia, Bulgaria by hand, by Federal Express and by email. The complaint sent via Federal Express had a cover letter attached to it from Daniel Loeb at Fried, Frank, Harris, Shriver & Jacobson, stating that Masthead had 60 days to respond as to whether it would waive service, and if it did, it would then have 30 days to answer the complaint. That would put Masthead's time to answer the complaint at December 13, 2011 if it chose to waive service. A copy of that letter is attached hereto as Exhibit A.
- 11. Shortly after I received these papers, I informed Interplay of them.

 Interplay advised me that the papers had not been properly served and that Interplay would handle any response to them that might ultimately be required by Masthead.
- 12. I also contacted a US law firm with which I have worked in the past, Davis & Gilbert, LLP ("Davis & Gilbert"), to confirm whether the Complaint papers

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- 13. Because I believed that Interplay would respond to the Complaint on behalf of Masthead if a response were necessary, and because I was informed that service had not yet effectively been made on Masthead, I did not take any further action with respect to the Complaint sent to me on or about September 14, 2011 by Bethesda.
- 14. Subsequently, in November, I received two additional notices via Federal Express from Bethesda. Based upon my prior conversation with Interplay, I mistakenly believed that any required response to these notices was being handled by Interplay. I did not inform Davis & Gilbert of these notices, as I was relying on Interplay, pursuant to its assurances with me, to deal with anything that needed to be done in connection with them.
- 2011, an employee of Masthead, Georgi Alexandrov Petrov, who is not a director or officer of it and who works in Masthead's office located at Oborishte str. 102 floor 3, Sofia, Bulgaria, received via hand delivery another copy of the Complaint, which this time had a copy translated in Bulgarian and which indicated that it was issued through the courts in Bulgaria. Mr. Petrov did not inform me that he had received such a copy of the Complaint until December 2, 2011, after I asked everyone in that office if they had received any further legal papers from Bethesda. Mr. Petrov advised me that he mistakenly believed that these papers were the same as the previous papers that we had received and thus did not inform me previously of having received them. I only learned of this on December 2, 2011 after Davis & Gilbert asked whether any new service had been attempted on Masthead, as they had become aware of new filings by Bethesda for a default judgment in this Court. These new papers were not served on

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1	me personally, nor were they served at the office where I work, which is located at
2	Cvetan Lazarov Blvd. 33 floor 6, Sofia, Bulgaria. This is another reason why I did
3	not learn about them until December 2, 2011.
4	[기사] 등 하시는 등 경험 기계를 받는 기를 보고 있다. 이 경험을 받는 것이 되었다는 등 경험을 하고 있다. 그는 기가 기업을 보고 있다.
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6	I declare under penalty of perjury under the laws of the United States of
7	America that the foregoing is true and correct.
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10	Executed this 5 day of Dece Moes 2011 in Sofia, Bulgaria
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13	ATANAS ATANASOV
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A Professional Corporation

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON LLP

801 17th Street, NW Washington, DC 20006 Tel: 202,639,7000 Fax: 202,639,7003 www.friedfrank.com

September 14, 2011

Direct Line: 202.639,7062 Fax: 202.639,7004 Daniel.Loeb@friedfrank.com

By Federal Express

Atanas Atanasov Masthead Studios LTD 33 Tsvetan Lazarov Blvd Floor 6 Sofia, Bulgaria

> Re: Bethesda Softworks LLC v. Masthead Studios LTD, Case No. LACV11-754-JFW(Ex)

Dear Mr. Atanasov:

I am counsel to Bethesda Softworks LLC. Enclosed herewith is a copy of the complaint filed by Bethesda Softworks LLC against Masthead Studios, LTD. This complaint was filed in the United States District Court for the Central District of California on September 13, 2011. Also enclosed is a copy of the stamped summons, the exhibits filed with the complaint, and three motions (along with accompanying memoranda of points and authorities, declarations and exhibits) that Bethesda intends to file with the court today. One of these motions requests immediate injunctive relief from the court in the form of a temporary restraining order. We are providing you copies of these documents to give you notice of this lawsuit that was filed against your company and these motions that will be filed today.

I have also enclosed copies of a notice of this lawsuit, a request for waiver of service, and two copies of a waiver of service form. Also enclosed is a prepaid Federal Express form to return to me one copy of the signed waiver of service form.

Enclosures

New York • Washington DC • London • Paris • Frankfurt • Hong Kong • Shanghai A Delaware Limited Liability Partnership



UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA, WESTERN DIVISION

BETHESDA SOFTWORKS LLC,

Plaintiff.

VS

MASTHEAD STUDIOS LTD.,

Defendant.

CASE NO. LACV11-7534-JFW(Ex)

Hon. John F. Walter

NOTICE OF A LAWSUIT AND REQUEST TO WAIVE SERVICE

To: Atanas Atanasov

Why are you getting this?

A lawsuit has been filed against Masthead Studios LTD in this court under the number shown above. A copy of the complaint is attached.

This is not a summons, or an official notice from the court. It is a request that, to avoid expenses, you waive formal service of a summons by signing and returning the enclosed waiver. To avoid the expenses of formal service, you must return the signed waiver within 60 days from September 14, 2011, which is the date this notice was sent. Two copies of the waiver form are enclosed, along with a stamped, self-addressed envelope or other prepaid means for returning one copy. You may keep the other copy.

What happens next?

If you return the signed waiver, Bethesda Softworks LLC will file it with the court. The action will then proceed as if you had been served on the date the waiver is filed, but no summons will be served on you and you will have 90 days from September 14, 2011, which is the date this notice was sent, to answer the complaint.

If you do not return the signed waiver within the time indicated, I will arrange to have the summons and complaint served on you. And I will as the court to require Masthead Studios LLC to pay the expenses of making service.

Please read the enclosed statement about the duty to avoid unnecessary expenses.

I certify that this request is being sent to you on the date below

Dated: September 14, 2011

Damei E. 17060

UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA, WESTERN DIVISION

BETHESDA SOFTWORI	KS LLC,		
Plaintiff,			
Vs.			V11-7534-JFW(Ex
MASTHEAD STUDIOS I	LTD	Hon, John F. Wa	lier
Defendant.			
Company of the Compan	***	J	

WAIVER OF SERVICE OF SUMMONS

To: Daniel E. Loeb

I hereby acknowledge receipt of your request to waive service of a summons in this action along with a copy of the complaint, two copies of this waiver form, and a prepaid means of returning one signed copy of the form to you.

I agree, on behalf of Masthead Studies LTD, to save the expense of serving of a summons and complaint in this lawsuit by not requiring that I be served in the manner provided by Rule 4 of the Federal Rules of Civil Procedure.

I understand that Masthead Studios LTD will retain all defenses or objections to the lawsuit, the court's jurisdiction, and the venue of the action, but that I waive any objections to the absence of a summons or of service.

I also understand that Masthead Studios LTD must file and serve an answer or a motion under Rule 12 within 90 days from September 14, 2011, the date when this request was sent. If I fail to do so, a default judgment will be entered against Masthead Studios LTD.

Dated:	 	•			11 11 11 11	
Dasou.			•	Signed		
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DUTY TO AVOID UNNECESSARY COSTS OF SERVICE OF SUMMONS

Rule 4 of the Federal Rules of Civil Procedure requires certain defendants to cooperate in saving unnecessary costs of serving a summons and complaint. A defendant who is located in the United States and who falls to return a signed waiver of service requested by a plaintiff located in the United States will be required to pay the expenses of service, unless the defendant shows good cause for the failure.

"Good cause" does not include a belief that the lawsuit is groundless, or that it has been brought in an improper venue, or that the court has no jurisdiction over this matter or over the defendant or the defendant's property.

If the waiver is signed and returned, you can still make these and all other defenses and objections, but you cannot object to the abasence of a summons or of service.

If you waive service, then you must, within the time specified on the waiver form, serve an answer or a motion under Rule 12 on the plaintiff and file a copy with the court. By signing and returning the waiver form, you are allowed more time to respond than if a summons had been served.

UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA, WESTERN DIVISION

BETHESĎA SOFTW	ORKS LLC,
Plainti	II.
vs.	
MASTHEAD STUDI	OS LTD.,
Defend	ant.

CASE NO. LACV11-7534-JFW(Ex)

Hon, John F. Walter

WAIVER OF SERVICE OF SUMMONS

To: Daniel E. Loeb

I hereby acknowledge receipt of your request to waive service of a summons in this action along with a copy of the complaint, two copies of this waiver form, and a prepaid means of returning one signed copy of the form to you.

I agree, on behalf of Masthead Studios LTD, to save the expense of serving of a summons and complaint in this lawsuit by not requiring that I be served in the manner provided by Rule 4 of the Federal Rules of Civil Procedure.

I understand that Masthead Studios LTD will retain all defenses or objections to the lawsuit, the court's jurisdiction, and the venue of the action, but that I waive any objections to the absence of a summons or of service.

I also understand that Masthead Studios LTD must file and serve an answer or a motion under Rule 12 within 90 days from September 14, 2011, the date when this request was sent. If I fail to do so, a default judgment will be entered against Masthead Studios LTD.

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DUTY TO AVOID UNNECESSARY COSTS OF SERVICE OF SUMMONS

Rule 4 of the Federal Rules of Civil Procedure requires certain defendants to cooperate in saving unnecessary costs of serving a summons and complaint. A defendant who is located in the United States and who fails to return a signed waiver of service requested by a plaintiff located in the United States will be required to pay the expenses of service, unless the defendant shows good cause for the failure.

"Good cause" does not include a belief that the lawsuit is groundless, or that it has been brought in an improper venue, or that the court has no jurisdiction over this matter or over the defendant or the defendant's property.

If the waiver is signed and returned, you can still make these and all other defenses and objections, but you cannot object to the abasence of a summons or of service.

If you waive service, then you must, within the time specified on the waiver form, serve an answer or a motion under Rule 12 on the plaintiff and file a copy with the court. By signing and returning the waiver form, you are allowed more time to respond than if a summons had been served.

Kathryn Toyama

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