

<p>S &amp; L VITAMINS, INC.,</p> <p>Plaintiff,</p> <p>- vs. -</p> <p>AUSTRALIAN GOLD, INC.,</p> <p>Defendant.</p>	<p>CIVIL ACTION NO.</p> <p>05-CV-1217 (JS) (MLO)</p>
<p>AUSTRALIAN GOLD, INC.,</p> <p>Third Party Plaintiff,</p> <p>- vs. -</p> <p>LARRY SAGARIN AND JOHN DOES 1-10,</p> <p>Third Party Defendants.</p>	<p><b>TRIAL MEMORANDUM OF S&amp;L VITAMINS, INC. AND LARRY SAGARIN</b></p>

“injunctive relief” styled as a separate counterclaim). In the course of two motions to dismiss, seven of those, including claims for copyright infringement, false advertising, consumer protection, various varieties of trademark infringement, trademark dilution, and conspiracy, have been dismissed by this Court. What is left are AG’s claims for (i) tortious interference with contract; (ii) trademark infringement and unfair competition under Section 43(a) of the Lanham Act based upon S&L’s use of AG’s marks on its website to sell AG products; and (iii) a Section 133 claim under New York General Business Law against S&L that is essentially the state law cognate of claim (ii). *See Australian Gold’s Claims For Relief* (Dkt. No. 141) at 2.

At trial, S&L will demonstrate that (i) AG has not proved the elements of tortious interference with contract, (ii) AG’s Lanham Act claims are without merit, as AG has no evidence of either a likelihood of confusion or damages; and (iii) AG’s New York General Business Law Section 133 claim cannot be sustained because AG cannot prove that S&L “intend[ed] to deceive or mislead the public,” as required under the statute.

### **STATEMENT OF FACTS**

AG, which is in the role of plaintiff at trial, has materially altered its concept of the factual premise for the wrongs done to it by S&L from the time of its first cease and desist letters, through two versions of its pleadings, utterly evasive and never-supplemented discovery responses, countless hearsay-laden, unsupported assertions to the Court both orally, on the record and off, and in writing, and finally not only through its submission of its trial brief but in all probability right through the trial of this matter. These evergreen versions of AG’s “litigation truth” have morphed and strained and doubled back on themselves for the simple reason that AG seeks to find a set of facts, some set of facts, that it can adjust to what little is left of its claims in this case. The Court has permitted AG every conceivable latitude to enunciate, however late in

the process, new and often “creative” theories of liability, to continue discovery and amendment of the pretrial order essentially indefinitely – and despite all this, AG’s proofs, combined with a sober assessment of the legal standards at trial, will fail completely to meet its burdens to establish S&L’s liability.

Yet precisely because AG’s factual claims are a moving target and it will not be held to finality or accountability in its disparate ways of framing of them right up through the day of trial, S&L’s final factual “case” must abide that trial. This brief focuses, therefore, mainly on key legal principles applicable to the broadest possible interpretation of AG’s factual claims. The following factual outline, however, can be confidently asserted – for both the record of four years of dispute, plus the factual reality, are such that AG will not be able to rebut it at trial. That basic outline is this:

AG has never identified, in discovery or otherwise, a single transaction based on a sale of Product by an AG distributor to S&L. AG distributors are contractually prohibited from publicizing their status as AG distributors. AG has never informed S&L – before, during or after this litigation – that a party from which it was making purchases of Product was, in fact, an AG distributor. S&L has never knowingly, and based on the evidence proposed to be proffered at trial by AG it does not appear that AG can show that S&L ever unknowingly, purchased Product from an AG distributor, knowingly received a shipment of Product from an AG distributor, or ever engaged in any transaction, including placing an order with or making a payment to, any AG distributor. S&L makes its orders for Products only through persons it knows to be retail salons. AG cannot prove any facts recognized by any known legal standard that tend to demonstrate S&L induced any third person to breach its contract with AG. There is no proof that any third person actually did breach its contract with AG as a result of the actions of S&L. AG

cannot prove that an established retail salon is “in reality” not a salon at all, but is, rather, a “confederate” of S&L or that there is any other reason S&L is prohibited from buying from such a salon.

There is no actual confusion arising from S&L’s use of any AG trademark on S&L’s website. There is proof that could tend to show a likelihood of confusion arising from S&L’s use of any AG trademark on S&L’s website. AG has not been damaged in the slightest by S&L’s sales of genuine AG Product under any theory of liability.

### **ARGUMENT**

#### **I. AUSTRALIAN GOLD’S CANNOT MEET THE LEGAL STANDARD TO DEMONSTRATE TORTIOUS INTERFERENCE WITH CONTRACT UNDER NEW YORK LAW.**

AG asserts that S&L has tortiously interfered with the contracts between AG and its various distributors which prohibit sales by distributors Australian Gold Products (“Products”) to persons reselling Products on the Internet. AG has no evidence of S&L contacting a distributor, making a purchase from a distributor, or communicating in any way with a distributor. AG nonetheless argues that S&L’s purchase of Products outside of its closed distribution system is an act of unlawful “diversion” properly captured by the tort of tortious interference with contract. *See Australian Gold’s Trial Memorandum*, dated January 2, 2009 (Dkt. No. 144) at 2. Based on the actual elements of this cause of action, however, AG will fail to sustain its legal burden.

The elements of tortious interference with contract claim under New York law are: (1) existence of a valid contract between the plaintiff and a third party; (2) the defendant’s knowledge of the contract; (3) the intentional procurement of a breach of the contract without justification; (4) actual breach of the contract and (5) damage to the plaintiff. *See Cardiocal, Inc.*

*v. Serling* 492 F.Supp.2d 139, 151 -152 (E.D.N.Y. 2007) citing *Albert v. Loksen*, 239 F.3d 256, 274 (2d Cir.2001); *Advanced Marketing Group, Inc. v. Business Payment Systems, LLC* 481 F.Supp.2d 319, 324 (S.D.N.Y.2007). The third element, the intentional procurement of a breach of the contract without justification, is also referred to as “intentional inducement” by some New York courts. See *American Bldg. Maintenance Co. of New York v. Acme Property Services, Inc.* 515 F.Supp.2d 298, 314 (N.D.N.Y.,2007) citing *Lama Holding Co. v. Smith Barney Inc.*, 88 N.Y.2d 413, 424, 646 N.Y.S.2d 76, 668 N.E.2d 1370 (1996).

With respect to tortious interference with contract, S&L asserts the following defenses on its behalf, which it intends to demonstrate at trial: (i) S&L was not aware of any specific underlying contract between AG and any identified third party when making its purchases, and upon multiple requests for the identify of the same (so that any supposed interference could be avoided) AG refused to disclose it; (ii) S&L did not engage in any act that qualified as intentional inducement of a third party to breach a contract with AG, because S&L and the retailers it purchased from entered into arm’s length transactions; (iii) there was in any event no breach of any contract involving S&L because S&L only purchased Products from retailers, precisely as AG’s distribution policy intends and its distribution contracts provide; and (iv) AG cannot established any legally cognizable harm or damage to any action of S&L.

**A. S&L Had No Knowledge Of Any Contract Between AG and Third Parties**

To sustain a claim of tortious interference with contract, it must be shown that a defendant knew about a plaintiff’s contracts with third parties. See *Don King Productions, Inc. v. Douglas*, 742 F.Supp. 741, 775 (S.D.N.Y. 1990). While the required level of that understanding may be relatively low, and does not necessitate that a defendant know all the precise details of a plaintiff’s arrangement with a third party, a defendant must nevertheless possess some modicum

of understanding concerning the existence of a contract with an identified third party in order to be held liable for nonetheless conducting himself in a way that could amount to a tortious interference. *See id.* (internal citations omitted).

Thus it is axiomatic, and fundamentally just, that a party cannot be held liable for interfering with a contract or other duty between two parties if it is not aware **who** the two parties are and, of course, **what** contractual relationship they have. The burden of proving such knowledge naturally lies with the plaintiff, and it is impermissible to speculate the existence of such knowledge without an appropriate factual base. Thus the Second Circuit held that a photographic equipment manufacturer was not liable, under New York law, to a distributor for tortious interference with fiduciary duty based on secret negotiations between that distributor's employee, competitor, and manufacturer, given that the plaintiff failed to prove that the manufacturer knew that relationship between employee and distributor was fiduciary one, rather than that he operated under the assumption that the employee represented a distinct corporate entity separate from distributor. "To assume that Yamaguchi understood there to be a fiduciary, rather than contractual, relationship between Salvo and Hannex would be entirely speculative. Accordingly, this portion of the claim was properly dismissed." *Hannex Corp. v. GMI, Inc.*, 140 F.3d 194, 204-205 (2d Cir. 1998).

Here it was impossible for S&L to know that it should avoid purchasing Products from any party, because AG made it impossible for anyone outside its distribution network to know who those distributors are. This was not mere oversight: The contracts between AG and its distributors included on AG's exhibit list specifically provide that a distributor is **prohibited** from advertising that it is a licensed reseller of AG's Products, to wit:

Distributor is neither permitted nor required by the provisions of this Agreement to advertise itself as an “authorized distributor” of Australian Gold or the Products.

*See* Article II, Section 2.2 and Article III, Section 3.2 of Australian Gold’s Exhibits WWW, YYYY and ZZZZ. Thus even if AG had eyewitness or recorded evidence of a representative of S&L communicating with an AG distributor – or even testimony from a distributor or other or even circumstantial evidence that S&L had done so – it would not only lack the factual basis for a claim that S&L knew it was doing so (never mind the other issues of inducement, etc.): It would in theory constitute a prima facie violation of this contract, and “inducement” by S&L by virtue of asking, for such a distributor to identify himself as such in order to prevent this tort from occurring!

Indeed, the evidence shows that when S&L first received AG’s cease and desist letters back in January of 2004 (Exh. E) which included accusations that S&L was making purchases from unidentified distributors, it did not identify who those distributors were, and failed to do so through the course of all subsequent communications – thus making it impossible for S&L to stop buying from any party it even in theory “should not have been” buying. Furthermore, Australian Gold’s Responses to S&L’s First Set of Interrogatories could not identify a single party in response to a request that it name “all distributors from whom defendant contends plaintiffs obtained defendant’s products.” *See* Australian Gold’s Responses to S&L’s First Set of Interrogatories, Exh. No. 8 at 5. In responding, AG merely replied, “Australian Gold does not know the identity of the distributors at this time, but its investigation continues.” *Id.*, at 6. This “investigation” never ended; Consequently, but for the knowledge that S&L has acquired from discovery in this case, S&L was, and continues to be, unaware of any contracts AG purports to

have with its exclusive distributors, and remains unaware of a single purchase alleged to have been made by S&L from such a person – knowingly or otherwise.

Suggestions have also been made in recent communications with the Court that AG can show that S&L “must have known” that it was at some point at least receiving Products directly from a distributor (which, as shown below, is hardly inducement to breach a contract), because supposedly an invoice or packing slip provided this information. Not only will AG be unable to show, at trial, the existence of such “knowledge” by testimony or otherwise, even if it had such proof it would still be utterly unable to show that S&L knew, when it saw the name on the shipping invoice, that it was the name of an AG distributor – because this was, and remains, “classified information” that was never disclosed to S&L!

Because S&L does not possess any knowledge of whom AG utilizes as its exclusive distributors for AG’s Products, AG’s claims of tortious interference will fail as a matter of law.

#### **S&L Failed to Intentionally Induce Any Distributor of**

##### **B. AG Cannot Prove that S&L Induced Any Distributor of Australian Gold to Breach A Contract with Australian Gold**

On this record, to permit AG’s tortious interference claim to go to the jury would be to introduce into New York law a *per se* tort devoid of the need for a showing of even negligence, much less scienter, and would permit a party such as AG to set up an invisible “net” of secret contracts and contract parties that the unwary, or even the inquisitive, would have no way of detecting until found liable in court for inducing their breach. That is because, in addition to the previous point regarding “knowledge,” to establish a claim for tortious interference with contract, AG must also show not only that S&L was aware of that contract, but that S&L **acted intentionally to induce** a third party to breach its contract with AG. This it will not be able to do at trial.



It is well recognized that, under New York law, “[i]n a tortious interference action, the plaintiff must show that tortfeasor's actions were the proximate cause of the breach of contract.” *Don King Productions, Inc. v. Douglas*, 742 F.Supp. 741, 774 (S.D.N.Y. 1990). Furthermore, New York courts have routinely emphasized the requirement of intentional conduct in evaluating this claim under New York law. *See, e.g., Health-Chem Corp. v. Baker*, 915 F.2d 805, 809 (2d Cir.1990) (“the interference must be intentional and not incidental to some other lawful purpose”); *Automatic Findings, Inc. v. Miller* 232 A.D.2d 245, 245, 648 N.Y.S.2d 90, 90 (1st Dep’t. 1996) (no intent to procure a breach of contract by a third party; dismissing the claim); *Winicki v. City of Olean*, 203 A.D.2d 893, 894, 611 N.Y.S.2d 379, 380 (4th Dep’t. 1994) (same) *citing Guard-Life Corp. v. Parker Hardware Mfg. Corp.*, 50 N.Y.2d 183, 189-190, 428 N.Y.S.2d 628, 406 N.E.2d 445 (1980); *Israel v. Wood Dolson Co.*, 1 N.Y.2d 116, 120, 151 N.Y.S.2d 1, 134 N.E.2d 97 (1956).

Moreover, in New York the level of intent required to sustain a claim for tortious interference with contract is “exclusive malicious motivation.” *See Allworld Communications Network, L.L.C. v. MCI Worldcom, Inc.* 2000 WL 1013956, at \*5 (S.D.N.Y. 2000) *citing Elliott Associates, L.P. v. Republic of Panama*, 975 F.Supp. 332, 341-342 (S.D.N.Y. 1997). The act of inducement must be “malicious or carried out with the intent to harm the plaintiff.” *Ultramar Energy Ltd. v. Chase Manhattan Bank, N.A.*, 179 A.D.2d 592, 579 N.Y.S.2d 353, 354 (1st Dep’t 1992). The action must have been taken by the defendant “without justification, for the sole purpose of harming the plaintiffs.” *Benjamin Goldstein Productions, Ltd. v. Fish*, 198 A.D.2d 137, 603 N.Y.S.2d 849, 851 (1st Dep’t 1993).

Here, notwithstanding the impossibility of S&L’s intentional inducement of a third party to breach its agreement with AG, as S&L never purchased Products directly from a distributor to

begin with, AG has neither alleged, nor can it demonstrate at trial, that S&L acted in a manner with the intent to exclusively harm AG. Rather, what is clear from the record to date, and will once again become apparent at trial, is that S&L acted in a manner to further its own lawful economic interests, which does not make S&L's conduct unlawful. *See Allworld Communications Network, L.L.C.*, 2000 WL 1013956, at \*5.

The legality of S&L's conduct in relation to its own economic self interest was addressed by the U.S. District Court for the District of Arizona in *Designer Skin, LLC v. S & L Vitamins, Inc.*, No. CV 05-3699-PHX-JAT, 2008 WL 4174882 (D.Ariz., Sept. 5, 2008), where, on precisely identical facts, District Judge James A. Teilborg dismissed plaintiff's claims of tortious interference with contract because plaintiff failed to prove that S&L had any way of affecting, much less inducing, plaintiff's transactions with its distributors. The standards in Arizona and New York law as to the elements of tortious interference with contract are the same. Judge Teilborg wrote:

The natural implication to be drawn from these facts is not that S & L Vitamins had the right to control the tanning salons' transactions with the distributors, ... but rather that S & L Vitamins and the tanning salons [it purchased Products from] entered into arms-length transactions, **with each entity acting out of its own self-interest**. A reasonable jury could not conclude otherwise. Therefore, Designer Skin's agency theory fails as a matter of law.

*Designer Skin, LLC*, 560 F.Supp.2d at 826 (emphasis added). The legitimacy of this "motivation for profit" perspective is not some obscure doctrine or technicality. Indeed, the legitimacy of a defendant's actions under New York law was perhaps never better expressed than in *Benton v. Kennedy –Van Saun Mfg. & Eng'g Corp.*, 2 A.D. 2d 27, 152 N.Y.S.2d 955 (1<sup>st</sup> Dep't 1956), a case on which both this Court and AG have consistently relied. In *Benton*, the court reserves of the possibility that some set of circumstances could exist wherein, absent direct proof of inducement, some set of facts could make out a finding of inducement by "circuitousness"

means. But this statement was merely dictum, and was based on no other authority. In fact, in the previous paragraph, the court ruled – in language far more applicable to the reality of the facts here – as follows:

It is clear from this and similar allegations that the primary objective of defendant was to take over the potentially profitable work to be performed under plaintiff's contract. If this were defendant's purpose, and we may draw no other inference, it did not constitute the malicious and unjustifiable attempt to injure plaintiff that is an essential ingredient in an action for 'prima facie' tort. Intent to bypass, circumvent, or to destroy plaintiff's contract there may have been; but if carried out by lawful means, motivated chiefly by a desire to make profits, there is no actionable wrong, even though there is a callous disregard of the incidental injury to plaintiff which would necessarily follow. **Defendant's self-interest negatives malice, even though the means employed might be of questionable morality and ethical validity. Competition as such, no matter how vigorous or even ruthless, is not a tort at common law.**

*Benton*, 2 A.D.2d at, 29 (emphasis added).

Indeed, in *Designer Skin*, Judge Teilborg specifically addressed the inadequacy of the decision in *John Paul Mitchell Sys. V. Pete-N-Larry's Inc.*, 862 F. Supp. 1020 (W.D.N.Y. 2004) and the dictum of *Benton*, 2 A.D. 2d 27, 152 N.Y.S.2d 955 (1<sup>st</sup> Dep't 1956). In declining to adopt the proposition that undefined, subjective "circuitous" conduct may give rise to a defendant's liability for tortious interference with contract, Judge Teilborg noted the absence of any legal standard for such a finding – hardly surprising because no court has ever found it. In both *Pete-N-Larry, Inc.* and *Benton*, no tortious interference with contract claim could be sustained on the facts or allegations before the courts. *See Pete-N-Larry's Inc.*, 862 F. Supp. at 1029; *Benton*, 2 A.D.2d at 29, 152 N.Y.S.2d at 958-959. Thus the suggestion by AG that "S&L Vitamins' action meet the standard for [circuitous] tortious interference set forth in *Pete-N-Larry's, Inc.*" is preposterous, as the *Pete-N-Larry's Inc.* court declined to enunciate anything like a "standard" and, again, its vague suggestion that there could be one is no more than dictum.

*See Australian Gold's Trial Memorandum* (Dkt. No. 144) at 11; *Pete-N-Larry's Inc.*, 862 F. Supp. at 1029.

Indeed, AG cites no legal authority either in its recent Trial Memorandum or in any of the extensive briefing in previous motions in this case to any court's "standard" or identification of a "circuitous" tortious interference claim (much less one absent knowledge). Moreover, S&L's survey of jury instructions for tortious interference with contract, which includes instructions from both the Second and Ninth Circuits that have actually been submitted to juries, fails to contain even a single discussion of the applicability of "circuitousness" or any facts that amount to "circuitousness" to a jury asked consider this tort.

Not only does no court define "circuitous tortious interference," the Restatement (Second) of Torts §766 and comment n – specifically cited by the court in *Pete-N-Larry's Inc.* – unequivocally stands for the precisely opposite conclusion here: that the conduct AG complains of here is **not** unlawful, as follow:

One who intentionally and improperly interferes with the performance of a contract (except a contract to marry) between another and a third person by inducing or otherwise causing the third person not to perform the contract, is subject to liability to the other for the pecuniary loss resulting to the other from the failure of the third person to perform the contract.

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*n. Making agreement with knowledge of the breach.* One does not induce another to commit a breach of contract with a third person under the rule stated in this Section when he merely enters into an agreement with the other **with knowledge** that the other cannot perform both it and his contract with the third person. ... For instance, B is under contract to sell certain goods to C. He offers to sell them to A, who knows of the contract. A accepts the offer and receives the goods. **A has not induced the breach and is not subject to liability under the rule stated in this Section.** In some cases, however, B may be enjoined at the suit of C from performing for A, or B may be compelled specifically to perform the contract with C. ...

See REST 2d Torts § 766, comment n. (Emphasis added). Applied to the instant facts, it is worth noting that while the Restatement may provide for AG's recourse against its distributors, through an injunction or compelling specifically performance, it specifically exonerates S&L from any liability, on these facts as alleged by AG.

Absent a single legal precedent finding a party liable for "circuitous tortious liability" in New York or any other state, AG's claims of tortious interference with contract amount to the oft-mocked "I know it when I see it" test for obscenity of Justice Stewart's in *Jacobellis v. Ohio*, 378 U.S. 184, 197, 84 S.Ct. 1676, 1683, 12 L.Ed.2d 793 (1964) (Stewart, J., concurring). If only because it is impossible for a person to avoid committing a wrong that the law does not define in advance of his actions, New York courts routinely reject the impulse to impose liability for novel torts based on inarticulable standards. See, e.g., *Chris-Craft Industries, Inc. v. Piper Aircraft Corp.*, 480 F.2d 341, 397-398 (2d Cir. 1973); *JA Apparel Corp. v. Abboud*, 2008 WL 2329533, \*32 at n. 38 (S.D.N.Y. 2008); *Envirokare Tech, Inc. v. Pappas*, 420 F.Supp.2d 291, 294 (S.D.N.Y. 2006).

Because there exists no foundation for a doctrine of "circuitous" conduct amounting to tortious interference with contract in New York or any other state for that matter, and because AG cannot prove that there was ever a single act of inducement by S&L directed, much less knowingly, to any AG distributor, AG will fail as a matter of law to meet its burden of trial to meet the legal standard of carrying such a claim.

**C. There Is No Underlying Breach of Contract**

Obviously tortious interference with contract requires an actual breach of contract. See *D'Andrea v. Rafla-Demetrious*, 146 F.3d 63, 65-66 (2d Cir. 1998) ("we decline to hold that the New York courts would recognize an exception to the rule requiring 'actual breach' in order to

state a claim for tortious interference with contractual relations. Because there was no breach of contract in the instant case, [appellant's] tortious interference with contractual relations claim must fail."); *see also Cardiocall, Inc.*, 492 F.Supp.2d at 151. It is certainly noteworthy that, after four years of claiming that S&L has induced one or more AG distributors to a breach of contract, not a single AG distributor has been sued by AG for allegedly selling Products to S&L. At trial AG will be unable to prove a breach of contract in the instant case, and absent proof of a breach of contract, there can be no inducement of that breach. "Plaintiff has suffered an injury, but it appears that its clearest recourse is against the contracting party . . . and perhaps . . . its principals. [Plaintiff] has not shown a likelihood of success on the merits on its claim against the third party Quality King for tortious interference with contract." *John Paul Mitchell Systems v. Quality King Distributors, Inc.*, 106 F.Supp.2d 462, 476-477 (S.D.N.Y. 2000).

Here, again, AG's counterclaim for tortious interference is premised on the inviolability of its highly controlled (and highly profitable) distribution system, whereby it sells only to distributors, which contractually may sell only to retail tanning salons. But the proofs will demonstrate that S&L purchases its lotions only from retail tanning salons, and not from distributors. These salons are not parties to the distributorship contracts at all, and hence the existence of these contracts is irrelevant to AG's counterclaim; they simply were not breached by any party.

AG attempts to circumvent this difficulty by imagining that S&L has been secretly controlling a salon – an utter fantasy first alleged in years ago and never remotely proved, and which AG now claims to believe it will finally establish in its forthcoming supplemental depositions. The uncontroverted<sup>1</sup> evidence, however, is, and will remain through trial, that S&L

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<sup>1</sup> Despite the absence of a single shred of contrary proof on the parties' cross motions for summary judgment, AG refused to concede this fact in its response to S&L's Rule 56.1 statements.

does not now, nor did it ever control the transactions, business, personnel or any other aspect of any tanning salons, and that all transactions between S&L and its salon-suppliers are arms-length transactions, and do not in any way amount to, imply or otherwise involve a breach of any contract between AG and any other person. *See, Designer Skin*, 560 F.Supp.2d at 825-26.

**D. AG Cannot Prove Any Damage Due to S&L's Actions**

Finally, even if AG's tortious interference claim could surmount all the obstacles identified above, AG's claim will ultimately fail upon the last, and perhaps most important, element: the existence of harm. At no time in this litigation has AG presented any evidence, beyond conclusory allegations, that it suffered any legally cognizable, or any other, damage as a result of S&L's actions. At trial, too, it will fail to do so, regardless of how much distracting information AG attempts to enter into the record regarding S&L's own business success.

Indeed, S&L's action – that is, selling a manufacturer's products – is one which is ordinarily considered a **benefit**, not an injury, to the company. As the Court wrote in *Pete-N-Larry's Inc.*, rejecting a tortious interference claim based on "circuitousness," courts across the country "have been suspicious of the claim that disruption of these exclusive distribution arrangements causes any pecuniary injury . . . ." 106 F.Supp.2d at 475, *citing H.L. Hayden Co. v. Siemens Medical Sys., Inc.*, 879 F.2d 1005, 1024 (2d Cir. 1989), *Graham Webb Int'l Ltd. Partnership v. Emporium Drug Mart, Inc.*, 916 F.Supp. 909, 918 (E.D. Ark. 1995) (no basis for concluding that [any] lost sales would be greater than the increased revenue resulting from the availability of the product in ordinary retail outlets).

The simple fact here is that S&L is accused of selling AG's Products – genuine merchandise that originated with AG, and which AG sold to its own distributors at a price it chose. AG has been paid richly for the stuff it sells. By what theory of damages can it be paid

again? Indeed, AG suggests repeatedly that its “damages” under its vague theories of harm can be tied somehow to sales by S&L of AG merchandise. This would only make sense if S&L not only had no right to buy this merchandise and resell it, but if either (a) **AG itself** also were in the business of selling Products and S&L’s sales had deprived it of revenue it would otherwise have made, or (b) this action had been brought by a retailer asserting a “right” to exclusive sales of Products of which it was deprived by S&L. But how can the manufacturer recover the value of its merchandise once upon selling it and another time upon another person selling it?

In the summary judgment ruling in this case, the Court found an earlier version of this argument unavailing, stating, “AG has submitted affidavits about the damage to AG’s reputation, damage to AG’s investment in the exclusive distribution system, and the costly investments AG has made in protecting this exclusive distribution system and preventing online sales of its Products. AG claims that by maintaining this exclusive distribution system, AG can provide accurate counseling to consumers about their Products.” But as S&L urged in that motion, AG’s affidavits were entirely conclusory, as has been any response in discovery to inquiries by S&L requesting an enunciation of damages such that S&L could fairly defend against such a claim at trial. It is well established that merely claiming “we’ve been damaged” is not adequate to lay the factual predicate for a jury’s consideration of a damage award. *See Rodonich v. House Wreckers Union Local 95 of Laborers’ Intern. Union*, 817 F.2d 967, 978 (2d. Cir. 1987) *citing Bise v. International Brotherhood of Electrical Workers*, 618 F.2d 1299, 1305 (9th Cir.1979) (jury’s award of damages for emotional distress vacated where evidence failed to show actual harm), *cert. denied*, 449 U.S. 904 (1980).

Thus in *Designer Skin*, the failure of plaintiff to present any competent evidence of monetary damages linked coherently to actions taken by S&L led the District of Arizona to



dismiss outright plaintiff's unfair competition claim and copyright infringement damages claims under a copyright theory against S&L, including all actual damages and claims for the disgorgement of profits. *See* Transcript of the Honorable James A. Teilborg's Oral Order in connection with defendant's Rule 50 Motion, dated July 16, 2008 is attached hereto as Exhibit A.

In his ruling, the court stated:

All right. The Court has, obviously, heard the evidence and heard the arguments of counsel and I have previously granted the motion to strike certain of the damage evidence from Miss Romero and set forth my reasons why. The Court has now granted the unopposed motion to dismiss the claim for statutory damages. I now grant the Rule 50 motion with respect to actual damages on the bases that there has been no showing of actual damages suffered as a result of the alleged copyright infringement. . . .

[T]he references to S & L's profits are simply, again, gross references to revenues and ultimately to profits without any reasonable basis to differentiate how much of that is attributable to the copyright infringement as opposed to the product sales. . . .

And the suggestion, setting aside the lack of connection to the infringement, the suggestion that somehow the jury could take the box car numbers [of sales by S&L] that are in evidence and somehow calculate what a license fee might be or a royalty might be would simply be to invite them to engage, again, in the rankest form of speculation and literally creating out of whole cloth some type of damage number.

So for these reasons, the Court concludes that there is simply an absence of evidence to connect the infringement with actual damages that would allow a reasonable jury to have a legally sufficient basis to award damages.

*Id.* at. 12, 18-19 and 33-36.

Here, S&L has repeatedly requested, in discovery, both proof of damages and the articulation of a theory of damages; AG has provided none. AG's responses to S&L's interrogatories were unresponsive on the issue of damages and were never supplemented. Further, AG has produced no expert report, no financial records, no evidence of lost sales, and no evidence of the value of its vaunted distribution network or of its assertion that that distribution

network was in any way disrupted by S&L's actions. Indeed, the **only** numbers produced by AG at any point in this litigation is a vague chart entitled "Damages Worksheet," which appears to be a conclusory summary, unaccompanied by backup or reference to specific sources, of sums AG has spent in various categories related to its sales efforts.

Thus the only evidence that AG intends to provide at trial on the issue of damages is the testimony of Australian Gold's employees limited to executives Leslie Hartlieb, John Kieffner, and Tracey Ring, so that each in turn can comment on "...the harm caused by the sale of products over the internet, and damages AG has sustained as a result of the conduct of S&L and Sagarin." *See* Joint Pretrial Order, dated March 24, 2008 (Dkt. No. 129) at 8-9. Absent the presentation of evidence quantifying the harm AG allegedly experienced because of S&L's alleged interference with its distributors, which is an analysis that none of the aforementioned AG employees is qualified to make and upon which there is no documentation in the record for them to rely, any such testimony will be at best, in Judge Teilborg's words, tantamount to "invit[ing the jury] to engage, again, in the rankest form of speculation and literally creating out of whole cloth some type of damage number."

Because AG cannot prove damages from the alleged tortious interference by S&L, AG's claim of tortious interference with contract will fail to state a claim as a matter of law.

## **II. AUSTRALIAN GOLD'S CANNOT MEET THE LEGAL STANDARD TO SUCCEED ON ITS TRADEMARK AND UNFAIR COMPETITION CLAIMS AT TRIAL.**

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### **A. AG Cannot Use Trademark Claims As Proxies for Copyright Infringement**

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To a large extent AG's trial brief suggests that it hopes the Court will pay no heed to its earlier rulings dismissing virtually all of AG's trademark-based claims. In fact, in its Order of September 30, 2007, the Court **dismissed** AG's false designation of origin claim, AG's false

advertising claim, AG's trademark dilution claim, and AG's unfair competition claim. AG seems to believe, however, that if it parrots the Court's permissive language, finding the existence of a triable issue on the question of whether photographs of AG products on the S&L website cause consumer confusion, it can "back in" the full panoply of claims sounding in trademark and unfair competition. Obviously the Court will not permit this.

Pushing past its broad-brush assertion of injury, however, it can be perceived that essentially AG claims that S&L has copied photographs of Product bottled from the AG website, and that this is likely to cause consumer confusion. *See Australian Gold's Trial Memorandum*, dated January 2, 2009 (Dkt. No. 144) at 7-8, 19. It should be noted at this juncture, of course, that to the extent any aspect of AG's claim is construed as sounding in copyright, it is **not** part of this case. That is true for two reasons.

One is that, in its summary judgment ruling, the Court, in addition to dismissing the counterclaims of AG set out above (as well as its claims for conspiracy and interference with prospective business advantage) also dismissed AG's copyright claims.

The second is that the courts do not permit claims of "false association" based on unauthorized copying, and which are fundamentally premised on the wrongfulness or unauthorized nature of that copying, to masquerade as trademark claims. There can be no claim for "unfair competition" arising out of what is essentially an allegation of copyright infringement. 17 U.S.C. § 301(a). Indeed even the states are precluded from enforcing penalties for copyright violations if the intellectual property at issue falls within the "subject matter of copyright" as defined by federal law and if the claimed property rights are "equivalent to" the exclusive rights provided by federal copyright law. *Crow v. Wainwright*, 720 F.2d 1224, 1225 (11th Cir. 1983), *cert. denied*, 469 U.S. 819 (1984). To the extent any of AG's claims, including

its claim under Section 133 claim under New York General Business Law, amounts to no more than a copyright claim in disguise, AG should not even be permitted to mention it in its opening statement, elicit testimony regarding it or otherwise prejudice the jury by placing before it the alleged “wrongfulness” of S&L’s use of any copyrighted work by virtue of copying or publishing it without authorization.

**B. AG Cannot Prove A Likelihood of Confusion**

Section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1), provides that:

(1) Any person who shall, without the consent of the registrant-

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive ...

shall be liable in a civil action by the registrant for the remedies hereinafter provided.

It is, however, one thing to complain of a “reproduction,” etc. of a trademark, and quite another to seek damages for a photograph of a product being sold which may bear that trademark. There is simply no legal basis for suggesting that juxtaposing the name of a retailer that sells a product with an image of that product itself is an unlawful suggestion of “affiliation” that can give rise to likelihood of confusion, the signal test for trademark infringement. As S&L noted in its summary judgment motion, if this Court is to hold otherwise, every supermarket and department store circular would be a trademark infringement! Indeed, since the time of this Court’s summary judgment ruling on September 30, 2007, this very issue was played out at trial in *Designer Skin*. Considering the same issue – a claim of “false association” by the plaintiff based on S&L’s display of photographs of the merchandise it was offering for sale – Judge Teilborg ruled as follows:

Alternatively, and now having heard the evidence and seen the evidence and seen the website presentations, it is clear to me that the portraying of Designer Skin's product images on the website next to the S & L logo cannot cause any confusion that somehow S & L is associated with Designer Skin or is a so-called authorized distributor.

And again, we must remind ourselves that S & L -- though much to the chagrin of Designer, S & L had a perfect right to sell this product, and the mere fact the S & L logo is next to the product does not and I believe could not result in any bases for confusion.

In my judgment, this is no different than if this product had been sold on the Macy's or Nordstrom's website with Nordstrom's and Macy's logos sprinkled throughout. That would not be the basis for a claim of confusion. And obviously, retailers and Internet purveyors of products are doing this regularly and it cannot and should not be actionable.

Honorable James A. Teilborg's Oral Order in connection with defendant's Rule 50 Motion, dated July 16, 2008 at p. 37.

Furthermore, AG has never produced either admissible evidence of actual confusion nor evidence, much less an expert's opinion, that S&L's actions could lead to a likelihood of confusion. No consumer has ever inquired whether, much less been misled even momentarily on the spurious grounds of "initial interest" confusion that, S&L is an "authorized" seller of the Products or is otherwise affiliated with AG. This is hardly surprising – the S&L website features products of almost every manufacturer. In the absence of evidence of actual confusion, the burden is on AG to produce evidence of a likelihood of confusion – but, as AG urged on summary judgment, "it is certainly proper for the trial judge to infer from the absence of actual confusion that there was also no likelihood of confusion." *Inc. Publishing Corp. v. Manhattan Magazine, Inc.*, 616 F.Supp. 370, 386 (S.D.N.Y.1985), citing *McGregor-Doniger Inc. v. Drizzle Inc.*, 599 F.2d 1126, 1136 (2d Cir.1979).

AG has no proof of a likelihood of confusion has no survey or other expert testimony on point to present at trial. When asked in discovery "to [s]tate in detail each fact or circumstance

which defendant contends or shows that a likelihood of confusion exists between defendant and plaintiffs because of plaintiffs' use of the marks at issue in this action . . .," AG was unresponsive. *See* Australian Gold's Responses to S&L's First Set of Interrogatories, No. 3 at 3-4, attached hereto as Exhibit B. In fact, in answering S&L interrogatories, AG stated: "Australian Gold has not yet identified an expert witness who may be called upon to offer expert testimony in this area." *Id.* In doing so, AG acknowledged that it would need to present expert testimony to succeed on a trademark infringement claim. But there is no expert, just as there is no likelihood of confusion, and hence there is no bona fide claim for trademark infringement.

Instead, as this case approaches the eve of trial, AG intends to only offer the testimony of its employees to so that they may offer their own subjective views on "the harm caused by the sale of products over the internet . . ." *See* Joint Pretrial Order, dated March 24, 2008 (Dkt. No. 129) at 8-9. Indeed, even if it AG sought to introduce such "lay expert" opinion, AG's failure to amend their interrogatory answers to disclose that intention precludes it from proffering such testimony at trial under Fed. R. Civ. P. 26(a)(2) and Fed. R. Civ. P. 37(c)(1). But even if it were admissible, such testimony would be legally inadequate as competent evidence of a likelihood of confusion.

The lack of an expert opinion, given the lack of proof of actual confusion, is legally fatal to AG's trademark claim. The courts in this Circuit have, logically, concluded that the "failure to offer a survey showing the existence of confusion is evidence that the likelihood of confusion cannot be shown." *Essence Communications, Inc. v. Singh Industries, Inc.* 703 F.Supp. 261 (S.D.N.Y. 1988). *See also E.S. Originals Inc. v. Stride Rite Corp.*, 656 F.Supp 484 (S.D.N.Y. 1987), noting that the failure to conduct a survey was especially telling because the plaintiff had plenty of time to do so:

Furthermore, it is significant that Stride Rite did not undertake a consumer survey, a failure which strongly suggests that a likelihood of confusion cannot be shown. This is especially true since this case was not tried on an emergency basis, and there was therefore ample opportunity to undertake such a survey.

*Id.* at 490 (citations omitted). This, of course, is perfectly analogous to the events here; this case has been ongoing for nearly four years, and AG has been aware of S&L's business for at least five years, because it sent its original cease and desist letter claiming trademark infringement in January 2004. Accordingly, AG had "ample opportunity" to prepare a survey, and failed to do so.

Because AG has not produced any evidence of actual confusion or a likelihood of confusion, or any evidence of damages arising from trademark infringement under the Lanham Act, it will not be able to sustain its claim for trademark infringement at trial.

### **C. AG Cannot Prove Any Trademark Damages Due to S&L's Actions**

To be awarded profits under the Lanham Act, a plaintiff must show that an infringer acted with willful deception, in addition to showing (1) the defendant's unjust enrichment; (2) the plaintiff's damages from the infringement; or (3) that an accounting for profits is necessary to deter future willful infringement. *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1537 (2d Cir.1992); *see also Gidatex, S.r.L. v. Campaniello Imps., Ltd.*, 82 F.Supp.2d 136, 141 (S.D.N.Y.2000). Along with showing defendant's willful deception, the plaintiff must prove defendant's sales in order to recover defendant's profits. *See* 15 U.S.C. § 1117(a); *Basch*, 968 F.2d at 1539; *Ahava (USA), Inc. v. J.W.G., Ltd.*, 286 F.Supp.2d 321, 324 (S.D.N.Y.2003); *Gidatex*, 82 F.Supp.2d at 141-42. But to recover their own damages, including those lost profits, *see Basch*, 968 F.2d at 1540 (observing that plaintiff's lost profits "have been traditionally compensable as an element of plaintiff's damages"), plaintiffs are required to prove – with some specificity – what their actual damages are. *See, e.g., PPX Enters. v. Audiofidelity Enters.*, 818

F.2d 266, 271 (2d Cir.1987) (noting that “the quantum of damages, as distinguished from entitlement, must be demonstrated with specificity”). Some reasonable basis of computation has to be used, even though the proof may be only approximate. *See GTFM, Inc. v. Solid Clothing, Inc.*, 215 F.Supp.2d 273, 305 (S.D.N.Y.2002). AG has provided, in discovery or otherwise, no reasonable basis on which a jury could make such a calculation.

Similarly, a plaintiff must demonstrate that defendants' infringing conduct had some effect on its own sales or otherwise caused plaintiffs economic harm. *See, e.g., Burndy Corp. v. Teledyne Indus., Inc.*, 748 F.2d 767, 771-73 (2d Cir.1984). “A plaintiff who establishes false advertising in violation of § 43(a) of the Lanham Act will be entitled only to such damages as were **caused** by the violation.” *Burndy Corp. v. Teledyne Industries, Inc.*, 748 F.2d 767, 771 (2d Cir 1984), *citing, Quabaug Rubber Co. v. Fabiano Shoe Co., Inc.*, 567 F.2d 154, 161 (1st Cir.1977); *Invicta Plastics (USA), Ltd. v. Mego Corp.*, 523 F.Supp. 619 (S.D.N.Y.1981). A court may not engage in any degree of speculation in computing the amount of damages unless and until causation of damages is first established. *Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 562 (1931).

In an “evidentiary vacuum” such as the one here, “there is no basis to award plaintiffs any damages under the Lanham Act.” *Merchant Media, LLC v. H.S.M. Intern.*, 2006 WL 3479022 (S.D.N.Y. 2006), *citing Gidatex, S.r.L. v. Campaniello Imports, Ltd.*, 82 F.Supp.2d 136, 141-142 (S.D.N.Y. 2000 (evidentiary record did not support an award of profits where plaintiffs failed to demonstrate lost sales and merely showed defendant's intent to divert sales)

On this record, AG cannot proffer competent evidence of the causation of damages, much less a guideline as to their amount even if they theoretically existed, with respect to its Lanham Act claims. While AG originally “reserved its right” to “designate an expert witness to testify as



to the monetary damages of Australian Gold's goodwill and reputation," it never supplemented its response by naming such an expert. See Australian Gold's Responses to S&L's First Set of Interrogatories, No.4, and 6 at 4- 5, attached hereto as Exhibit B. Rather, once again, AG instead insists that by merely insisting "we've been damaged," it hopes that such a plea, will, by itself be enough to assert liability against S&L.

Consistent with its now long held approach to the issue of proof of damages, AG's recently filed Trial Memorandum once again states in conclusory fashion the astonishing claim that its actual damages "average almost \$700,000 per year," but even at this late date AG fails to explain how such an amount was arrived at. It merely states that this reflects the "costs of fighting product diversion on the internet and the training and management of the distributor relationships were previously submitted to the Court in Australian Gold's response to S&L's motion for summary judgment." See Australian Gold's Trial Memorandum, dated January 2, 2009 (Dkt. No. 144) at 25. In reviewing the evidence AG points to from its summary judgment motion, such "evidence" is nothing more than self-serving affidavits submitted by AG employees, which do not even specifically address the issue of actual damages for trademark infringement, but were instead offered in support of AG's damages arising from S&L's tortious interference with contract, i.e., an entirely different claim. See Australian Gold's Memorandum of Law In Opposition to S&L's Vitamins Motion for Summary Judgment (Dkt. No. 106), at 23.

As to AG's New York law claims, the standard of proof mirrors that of a Lanham Act claim, except that a claim of unfair competition under New York law also requires evidence of defendant's bad faith. *Louis Vuitton Malletier v. Dooney & Bourke, Inc. (Vuitton I)*, 340 F.Supp.2d 415, 436 (S.D.N.Y.2004), *vacated in part*, *Vuitton II* 454 F.3d 108; *Cartier Int'l B.V. v. BenMenachem*, No. 06 Civ. 3917, 2008 WL 64005, at \*13 (S.D.N.Y. Jan. 3, 2008) ("The same

26

# EXHIBIT A

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 MINTZ, LEVIN, COHN, FERRIS,  
 GLOVSKY and POPEO, P.C.  
 666 Third Avenue  
 New York, New York 10017  
 (212) 935-3000  
 ATTORNEYS FOR AUSTRALIAN GOLD, INC.

UNITED STATES DISTRICT COURT  
 EASTERN DISTRICT OF NEW YORK

-----	X	
S & L VITAMINS, INC.,	:	
	:	
Plaintiff/Counterclaim Defendant,	:	
	:	
v.	:	05 CV 1217 (JS)(ML)
	:	
AUSTRALIAN GOLD, INC.,	:	
	:	
Defendant/Counterclaim Plaintiff.	:	
-----	X	
AUSTRALIAN GOLD, INC.,	:	
	:	
Third Party Plaintiff,	:	
	:	
v.	:	
	:	
LARRY SAGARIN AND JOHN DOES,	:	
1-10,	:	
	:	
Third Party Defendants,	:	
-----	X	

**AUSTRALIAN GOLD'S RESPONSES TO  
 FIRST SET OF INTERROGATORIES**

Defendant/Counterclaimant, Australian Gold, Inc., ("Australian Gold"), by counsel,  
 answers Plaintiffs' Interrogatories to Defendant, as follows:

**GENERAL RESPONSE AND OBJECTIONS**

Australian Gold objects to the Interrogatories served by Plaintiff to the extent that the  
 Interrogatories attempt to impose upon Australian Gold any duties not specifically set forth in

Federal Rules of Civil Procedure. Australian Gold also objects to each Interrogatory that attempts to discover confidential or proprietary information of Australian Gold or information protected by the attorney-client privilege or work product doctrine.

Discovery has also not been completed on many of the subjects inquired about so that full and complete answers may not be able to be given at this time. This General Response and these objections are specifically incorporated into each of the individual responses that follow. Subject to and without waiving any objection, Australian Gold states as follows:

INTERROGATORY NO. 1: Identify all persons who have information concerning the subject matter of this litigation and set forth the subject of each witness's knowledge or information and whether they will be called to testify at trial.

ANSWER: Persons at Australian Gold with specific knowledge and information concerning the subject matter of this litigation include Leslie Hartlieb, John Keiffner, Tracy Ring, and Sarah Webster. These persons have knowledge concerning Australian Gold's business, its distribution system, its distributors, the products manufactured and offered for sale, Australian Gold's efforts to fight diversion on the internet and elsewhere, and plaintiffs' use of the internet to sell Australian Gold products, among other things. Australian Gold has not decided what witnesses it will call to testify at trial. Other persons with information concerning the subject matter of this lawsuit include representatives of S & L Vitamins, Inc., Larry Sagarin and any person or entity that has supplied S & L Vitamins with Australian Gold products.

INTERROGATORY NO. 2: Identify all communications between you and any person other than your attorneys about plaintiffs, plaintiffs' website, or plaintiffs' use of defendants' intellectual property, including trademarks or copyrights. For each such communication, identify

the date, time, nature of the communication (telephone, letter, email), participants, and contents of the communication.

ANSWER: Australian Gold has had communications with its distributors regarding S & L Vitamins' website. Documents evidencing these communications shall be produced at a mutually agreeable time and location. Australian Gold also had a telephone conversation with Designer Skin about the website and whether Designer Skin was taking legal action against S & L Vitamins.

INTERROGATORY NO. 3: State in detail each fact or circumstance which defendant contends supports or shows that a likelihood of confusion exists between defendant and plaintiffs because of plaintiffs' use of the marks at issue in this action, and identify all documents and things evidencing a likelihood of confusion.

ANSWER: Objection. Australian Gold objects to this request to the extent that it calls for a legal opinion or the work product of Australian Gold's attorneys. Further, Australian Gold has not yet identified an expert witness who may be called upon to offer expert testimony in this area. Subject to and without waiving these objections, the facts and circumstances which show the likelihood of confusion include: the use of Australian Gold's trademarks in S&L Vitamins' metatags on the website, superimposing "BodySourceOnLine.com" over photographs of Australian Gold products, using Australian Gold's trademarks with Yahoo pay-for-placement service and in the metatags in a manner calculated to capture the consumer's initial interest and then divert the consumer to the Plaintiffs' own website, thereby impermissibly capitalizing on the goodwill of Australian Gold's trademarks, the use of Australian Gold's trademarks without permission or authorization, the fact that Australian Gold has a distribution system which prohibits the sale of its products over the internet and the sale of Australian Gold's products on

the internet sends mixed messages to the general public regarding whether such sales are authorized, approved, endorsed or sponsored by Australian Gold, and complaints lodged by the general public to Australian Gold concerning the sale of the products by internet retailers.

INTERROGATORY NO. 4: For each trademark which defendant contends plaintiffs have used in an infringing manner, describe in detail the monetary damages suffered by defendant and identify all documents and things supporting these calculations.

ANSWER: Objection. Australian Gold objects to this interrogatory to the extent that it seeks information related to statutory damages under federal trademark law which may be available to Australian Gold, including Plaintiffs' profits and royalties. Australian Gold cannot make a full computation of the damages it contends that it has sustained because Plaintiffs have refused to provide Australian Gold with business records which would show Plaintiffs' sales of Australian Gold products. To the extent that Plaintiffs make these documents available to Australian Gold, Australian Gold will supplement this answer accordingly. Subject to and without waiving these objections, Plaintiffs' use of Australian Gold's trademarks has caused damage to Australian Gold's reputation and goodwill. Australian Gold promised its distributors and tanning salons that its products would only be available in tanning salons and would not be sold on the internet. Australian Gold has spent in excess of \$1.5 million on maintaining its distribution system and training its employees, distributors and tanning salons on the proper use of its products. Further, Australian Gold reserves that right to designate an expert witness to testify as to the monetary damages of Australian Gold's goodwill and reputation.

INTERROGATORY NO. 5: For each trademark which defendant contends has been diluted by plaintiffs' actions, describe in detail the facts which support this contention, and

describe the monetary damages suffered by defendant and identify all documents and things supporting these calculations.

ANSWER: See answers to Interrogatories Nos. 3 and 4.

INTERROGATORY NO. 6: Set forth in detail the damage to defendant's goodwill and reputation allegedly caused by plaintiffs' conduct as described in Paragraph 7 of defendant's counterclaim.

ANSWER: See answer to Interrogatory No. 4.

INTERROGATORY NO. 7: Set forth in detail the damage to defendant's "distribution system" allegedly caused by plaintiffs' conduct as described in Paragraph 7 of defendant's counterclaim.

ANSWER: The Plaintiffs have undermined Australian Gold's distribution system by illegally obtaining the products from one or more authorized distributors, through means which Australian Gold is still investigating. Upon information and belief, Plaintiffs have conspired with authorized distributors and/or other persons and entities to surreptitiously obtain the products and resell them on the internet. Australian Gold reserves the right to supplement this answer upon taking the deposition of Plaintiffs, Plaintiffs' suppliers and conducting further non-party discovery with respect to these suppliers. At the time of answering this interrogatory, none of Plaintiffs' suppliers had produced documents to Australian Gold's counsel and thus, Australian Gold cannot give a full and complete answer as to the extent of harm caused by Plaintiffs' conduct. See also answer to Interrogatory No. 4.

INTERROGATORY NO. 8: Identify all distributors from whom defendant contends plaintiffs obtained defendant's products.



ANSWER: Australian Gold does not know the identity of the distributors at this time, but its investigation continues.

INTERROGATORY NO. 9: Describe in detail, the training provided by defendant to distributors, retailers, and consumers, respectively.

ANSWER: In a typical year, Australian Gold trains over 30,000 employees, salon owners, and managers in over 600 presentations. Australian Gold has spent approximately \$1.5 million dollars on training in previous years. Australian Gold requires all distributors to participate in training programs, and to make their sales associates available two times a year for training provided by Australian Gold. All authorized distributors are also required to hold two seminars each year to train tanning salons on the proper use of the products. Australian Gold has a training department that meets with retail tanning salons to properly train them and answer questions concerning the proper use of the products. Australian Gold also sends its trainers to retail salons to train salon employees. Australian Gold also hosts a yearly distributor's council where it offers further training to distributors.

INTERROGATORY NO. 10: Identify all complaints, lawsuits, government investigations, or regulatory actions taken against defendant related to the safety of defendant's Products.

ANSWER: Objection. This request is overly broad and is not limited in time or scope. Subject to and without waiving this objection, Australian Gold shall produce responsive documents at a mutually agreeable time and location.

INTERROGATORY NO. 11: Identify any contracts which place restrictions on the sale of defendant's products by retailers.

ANSWER: See Distributorship Agreements and Premier Salon Contracts which shall be produced at a mutually agreeable time and location, subject to the terms of a protective order to protect the confidential nature of this information.

INTERROGATORY NO. 12: Please identify each person you expect to call as an expert witness at the trial of this action and for each such person, describe in detail the nature of and grounds for the testimony, the facts and documents upon which the expert based his opinion, and any tests or surveys relied upon by expert.

ANSWER: Objection. Australian Gold has not yet identified its expert witnesses. Australian Gold will identify all expert witnesses in accordance with the case management deadlines. Australian Gold will supplement this interrogatory accordingly.

INTERROGATORY NO. 13: Identify any retailer that has been banned, prevented, restricted, or forbidden from purchasing Products as a result of its failure to train customers in the use of the Products.

ANSWER: Australian Gold is not aware of a situation where a tanning salon has refused or failed to train customers, so the answer is none.

INTERROGATORY NO. 14: Identify each use of defendant's trademarks by defendants in Meta Tags, as alleged in Paragraph 37 of defendant's counterclaim.

ANSWER: See documents produced.

INTERROGATORY NO. 15: State the basis for defendant's contentions in Paragraphs 40 and 90 of defendant's counterclaim that plaintiffs acted to "mislead."

ANSWER: Objection. Paragraphs 40 and 90 of Australian Gold's Second Amended Counterclaim do not reference the word "mislead." To the extent that this reference is to paragraph 42 of the Second Amended Counterclaim, S & L Vitamins' use of photographs of the

products with its own name superimposed over the photographs impermissibly suggests a sponsorship, affiliation, endorsement or association between Australian Gold and Plaintiffs. The photographs that Plaintiffs display on the website are misleading because of the manipulation of the photographs.

INTERROGATORY NO. 16: Describe in detail all foreign laws which Products fail to comply with, as alleged in Paragraphs 47 and 54 of defendant's counterclaim.

ANSWER: Objection. This request calls for a legal conclusion as it seeks an analysis of foreign laws related to the sale of Australian Gold's U.S. products in foreign markets.

INTERROGATORY NO. 17: Describe in detail the damages suffered by defendant as a result of plaintiffs' alleged interference with its contracts with foreign distributors, as claimed in Paragraph 75 of defendant's counterclaim.

ANSWER: See answers to Interrogatory Nos. 4 and 9.

INTERROGATORY NO. 18: Describe in detail the "false pretenses" mentioned in paragraph 74 of defendant's counterclaim.

ANSWER: Objection. Australian Gold has not yet had the opportunity to depose representatives of S & L Vitamins and Larry Sagarin. Thus, the extent of their activities is still unknown at this time. Subject to and without waiving this objection, Australian Gold has conducted a diligent investigation to discover S & L Vitamins' sources for Australian Gold products and has been unable to discover that information. Thus, upon information and belief, Australian Gold suspects that S & L Vitamins is using a straw man, false names or other covert means to obtain the products.

INTERROGATORY NO. 19: Describe in detail the basis for defendant's claim in Paragraph 96 of its counterclaim that plaintiffs' website is "misleading in material aspects."

ANSWER: Objection. The Plaintiffs' website speaks for itself. Further, this interrogatory seeks counsel's work product. Subject to and without waiving these objections, see answer to Interrogatory No. 15.

INTERROGATORY NO. 20: State defendant's income and profits from the sale of its trademarked products for the last ten years and the sources of such income and profits.

ANSWER: Objection. This interrogatory is overly broad and vague with respect to the phrase "sources of such income and profits." Read literally, this interrogatory could seek the name of every transaction conducted by Australian Gold over the last ten years. To the extent that Plaintiffs wish to narrow and clarify this interrogatory, Australian Gold would be willing to reconsider any such interrogatory.

INTERROGATORY NO. 21: Describe in detail how plaintiffs' conduct caused defendant to suffer injury in its relations or prospective relations with distributors, as alleged in Paragraph 81 of defendant's counterclaim.

ANSWER: S & L Vitamins' conduct has undermined Australian Gold's distribution system. Australian Gold's business model is based upon having a closed distribution system. When products are sold on the internet, Australian Gold receives numerous complaints from distributors and tanning salons concerning the unauthorized sale of the products. If Australian Gold is unable to manage diversion, then relationships with distributors are compromised. One of the factors that has made Australian Gold very successful in the indoor tanning industry is that it has been able to maintain its distribution system and thus attract and maintain quality distributors.

INTERROGATORY NO. 22: Identify the individual or individuals who participated in responding to these interrogatories.

ANSWER: Leslie Hartlieb.

I certify under oath that the above responses to interrogatories are true and accurate to the best of my knowledge.

By Leslie Hartlieb  
President

As to objections,

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Michael A. Wukmer, Esq.  
Scott D. Matthews, Esq.  
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**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the foregoing has been deposited in the U.S. mail, first class postage prepaid, on the 20th day of January, 2006, addressed to:

Ronald D. Coleman  
David Stein  
Coleman Law Firm  
A Professional Corporation  
The Diamond Building  
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\_\_\_\_\_  
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New York, New York 10017

INDY 1657616v.2

# EXHIBIT B

July 16, 2008 - Jury Trial - Day 2

1 UNITED STATES DISTRICT COURT  
2 FOR THE DISTRICT OF ARIZONA

3 Designer Skin, LLC, an )  
4 Arizona limited liability )  
5 company; et al., )

6 Plaintiffs, )

7 vs. )

8 S & L VITAMINS, INC., )  
9 d/b/a BODY SOURCE d/b/a )  
10 THESUPPLENET.COM, a New )  
York corporation; and )  
LARRY SAGARIN, an )  
unmarried individual, )

11 Defendants. )

CIV 05-3699-PHX-JAT  
Phoenix, Arizona  
July 16, 2008  
11:28 a.m.

12  
13 REPORTER'S TRANSCRIPT OF PROCEEDINGS

14  
15 (Excerpted Oral Argument re Rule 50 Motion)

16  
17 BEFORE: THE HONORABLE JAMES A. TEILBORG, JUDGE

18  
19  
20 Official Court Reporter:

21 David C. German, RMR, CRR  
22 Official U.S. Court Reporter  
Sandra Day O'Connor U.S. Courthouse, Suite 312  
23 401 West Washington Street, SPC-39  
Phoenix, Arizona 85003-2151  
24 (602) 322-7251

25 PROCEEDINGS TAKEN BY STENOGRAPHIC COURT REPORTER  
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July 16, 2008 - Jury Trial - Day 2

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Phoenix, Arizona  
July 16, 2008

(The following excerpted proceedings took place in  
open court outside the presence of the jury:)

THE COURT: All right. The record will reflect the  
presence of counsel and the parties outside the presence of the  
jury.

11:28:

Are there any matters to be taken up at this point in  
the trial?

MR. COLEMAN: A number of legal matters, Your Honor.

11:29:

THE COURT: Why don't you come to the podium and it  
easier on your neck and back and make Mr. German's and my  
hearing better.

MR. COLEMAN: First off, we move to strike the  
testimony of Ms. Romero. A number of times counsel  
represented that she would -- that the extensive testimony  
that she gave would result in the delivery to the fact finder  
of testimony that would give them a rational or coherent basis  
on which to make a damages calculation. I submit that that  
never happened, and for that reason, in retrospect, I believe  
we can say that, in addition to whatever other liabilities that  
they have, it seems that virtually all of that testimony was  
irrelevant.

11:29:

11:29:

Should I make all the motions at once?

THE COURT: Let me deal with that one first and hear a

11:30:

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1 response.

2 MR. CROWN: Your Honor --

3 THE COURT: At the podium, please.

4 MR. CROWN: I've brought to the podium with me the  
5 stipulated jury instructions.

11:30:

6 THE COURT: I'm sorry?

7 MR. CROWN: I've brought to the podium with me the  
8 stipulated --

9 THE COURT: And I have read them and reread them, so  
10 why don't you just address his point.

11:30:

11 MR. CROWN: And that's what I was going to do.

12 Miss Romero's testimony is relevant on both the  
13 elements that we need to prove on both of our claims, copyright  
14 infringement as well as unfair competition, and the two types  
15 of damages that we will be seeking the jury to award.

11:31:

16 When it comes to the elements of copyright  
17 infringement, we need to prove access --

18 THE COURT: I'm sorry, but you're about to educate me  
19 on that which I already know, so I --

20 MR. CROWN: Okay.

11:31:

21 THE COURT: I just want you to respond to his --

22 MR. CROWN: Her testimony addressed all those issues,  
23 but in terms of the damages, her testimony established what  
24 goes into the integration of these copyrighted electronic  
25 renderings, how they are inextricably intertwined with the

11:31:

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1 value of the product.

2 The product just doesn't have value with lotion, no  
3 more so than the liquid in a Coca-Cola bottle is just the  
4 liquid and Coca-Cola has no way to protect the shape of its  
5 bottle or its name. These are associated with.

11:32:

6 And what she testified to, within this actual damages,  
7 when you bring it all forward from design, conception,  
8 creation, manufacturing, then launching and placing on the  
9 website, then the distribution, then the training, then the  
10 salons, the type of salon, what takes place, the consumer going  
11 there, and ultimately you get to this very instruction which  
12 says that we are allowed to recover as actual damages the  
13 amount of money adequate to compensate the copyright owner for  
14 the reduction of the fair market value of the copyrighted work  
15 caused by the infringement.

11:32:

11:32:

16 The reduction of the fair market value of the  
17 copyrighted work is the amount a willing buyer would have been  
18 reasonably required to pay a willing seller at the time of the  
19 infringement for the actual use made by the defendants of the  
20 plaintiffs' work.

11:33:

21 That is what her testimony ultimately led to and what  
22 her points -- I mean, the questions literally used parts of  
23 this instruction, the willing buyer that Designer Skin has done  
24 all of these extensive efforts, and that's why all of that  
25 testimony in terms of what goes into the development and the

11:33:

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1 expense and then the -- even the policing to detect the  
2 infringement.

3 THE COURT: Who was the willing buyer for the  
4 copyrighted work?

5 MR. CROWN: The purchaser of the suntan lotion  
6 products.

11:33:

7 THE COURT: That's a purchaser of the product, but  
8 who would have been the willing buyer of the copyrighted image?

9 MR. CROWN: The renderings on the bottle. When you  
10 buy the product you are buying that rendering.

11:34:

11 If you're asking me does Designer Skin, in the context  
12 of this type of copyright infringement case, sell its image  
13 standing alone, no. There is no art store. There is no piece  
14 of work. There is no T-shirt. You're not buying the rendering  
15 alone. The rendering is part of the bottle.

11:34:

16 When the customer goes in, it is an integrated and  
17 integral component part of that product, and people buy it as  
18 much for the bottle as they buy it for the product. They go  
19 hand in hand and they are an integral component.

20 And the standard is association. If the -- if a  
21 copyright case of this nature requires there to be a distinct  
22 purchase of the copyrighted work, like you buy -- you know, you  
23 buy a CD, which is the work, versus the package that goes as  
24 part of that.

11:34:

25 It's not a stand-alone. They're not in the business

11:35:

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1 to sell their creative copyrighted renderings. They sell them  
2 as an integral component part of their product. And the  
3 product in the bottle, if they put it in a plain white bottle,  
4 it doesn't sell. If they put it in a plastic bag, it doesn't  
5 sell. They go hand in hand.

11:35:

6 So the ultimate purchaser is buying this copyrighted  
7 work. That's what this instruction is depending on. And this  
8 instruction doesn't say that you have to only or uniquely buy  
9 it as a stand-alone item. It's like, "How much for the  
10 lotion?" "How much for the bottle?" "And, by the way, why  
11 don't you throw the rendering in."

11:35:

12 I'm not trying to be trite. I'm trying to say that  
13 different types of protected copyright work will present  
14 themselves differently in litigation, and that's why when you  
15 have something of this nature, or lotion, which is a -- you  
16 know, it's a lotion. It's like a translucent product. By  
17 itself, that's not sold. When you go and buy and you pay \$50  
18 or \$60 for a specific product you are buying as part of that  
19 price this copyrighted image. They go inextricably together  
20 hand in hand.

11:35:

11:36:

21 And that's why the language here --

22 THE COURT: I think you're starting to repeat  
23 yourself --

24 MR. CROWN: Okay.

25 THE COURT: -- but --

11:36:

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1 MR. CROWN: Anyway, the bottom line is, it is that  
2 willing buyer.

3 And so when Ms. Romero testified, if we use  
4 hypothetically a \$50 bottle that a willing buyer would pay a  
5 willing seller, and there's clear evidence in the record of 11:36:  
6 that, at the salon, but then we have the infringement that  
7 copies copyrighted images and we put that -- and S & L puts it  
8 on its website and it sells directly -- that's what they're  
9 saying; it's uncontested -- and they sell it for \$25, they have  
10 reduced the fair market value of the copyrighted work by that 11:37:  
11 much.

12 Also along the line, you've got the unfair competition  
13 claim, and unfair competition, and her testimony went to both  
14 damages and meeting the element, and there's again a stipulated  
15 instruction, it's when a person falsely advertises a product or 11:37:  
16 creates a false impression and/or association concerning the  
17 product.

18 Like copyright infringement, the burden of proof is by  
19 a preponderance, and you may refer to the damages instruction,  
20 the actual damage instruction, to award damages. 11:37:

21 So the parties have stipulated that the measure of  
22 damages becomes the same.

23 And again, as Ms. Romero clearly testified, when  
24 someone can go on S & L's website, see our copyrighted images  
25 and see their logo, a false association has been made in two 11:37:

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1 ways. They are either going to think, the public, that there  
2 is an authorization to S & L or, alternatively, that there is  
3 some type of legitimacy to it, that they're associated with the  
4 company.

5 And that takes us back to the reduction in market 11:38:  
6 value. Because they are very clear with their customers. It's  
7 not like the retail salons are themselves discount-type retail  
8 stores. They are very clear in how they've established their  
9 ultimate point of sale to the willing buyer from the willing  
10 seller. 11:38:

11 And when you have a company on the Internet who  
12 unlawfully, not lawfully -- I appreciate that there's a  
13 category that is a lawful way to resell in our system of  
14 commerce, but there is an unlawful way that it can be done, and  
15 that's what's been done here on the evidence. We've been very 11:38:  
16 clear. And so you have the elements of copyright infringement,  
17 you certainly have the elements of the unfair competition with  
18 false association and false impression, and it goes to those  
19 damages claim.

20 At the same time, we have a second category of 11:39:  
21 damages. So there's two different types of damages the jury  
22 can award. And the profits.

23 And I appreciate what the Court just ruled with that  
24 testimony, but that's not fatal. I represented to the Court  
25 that it was important and I -- we certainly believe that. But 11:39:



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1 the stipulated fact that should survive this challenge and  
2 eventually the directed verdict is a stipulated fact at  
3 Paragraph F.

4 Paragraph F of the stipulated facts says:

5 "Through its Internet website, S & L sells Designer 11:39:  
6 Skin products along with products manufactured by other skin  
7 care and nutritional supplement companies."

8 So we know that they are selling Designer Skin. And  
9 right now the record is absolutely uncontradicted that certain  
10 images were infringed upon that were copyrighted. We have the 11:39:  
11 copyright protections in evidence. We have Mr. Shawl and  
12 Miss Romero both, and Mr. Shawl specifically, as the creator,  
13 has said, "My exact images were copied on the website." And  
14 it's stipulated that they didn't have the authority.

15 What was offered in the opening statement, which is 11:40:  
16 not evidence, is that the distinction in this case will be  
17 whether there was unlawful infringement, i.e., copying  
18 copyrighted images without authority, and the unfair  
19 competition that goes with that as well, versus lawful  
20 photographs that they took of the products themselves, put 11:40:  
21 those on their website and sold.

22 There's absolutely no record at all to support an  
23 alternative way for these copyrighted images to have become on  
24 their website.

25 And then if you establish the fact that for the same 11:40:

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1 things I said a little while ago on what we need to prove the  
2 profits component, the tax returns are in evidence, the  
3 profits. And it's their profits. It's not our profits that's  
4 the issue when it comes to this damage instruction. It's their  
5 profits that we've proven. We know they've sold it. If they  
6 sold at least one bottle, that's at least a dollar. It's not  
7 zero.

11:41:

8 If you follow the point I'm making.

9 It is uncontradicted that they have sold our products,  
10 and we've proven that part of the products they sold were in  
11 association with the infringed-upon copyrighted electronic  
12 renderings.

11:41:

13 And so, again, and I pointed out, this instruction  
14 uses soft language, when it's indirectly related to the  
15 infringement, which in part addresses what the Court asked me a  
16 little while ago. You said, "Are they buying the image?" We  
17 don't do that. We don't sell the image. The image is part of  
18 the overall product. When you buy the bottle you've bought, in  
19 part, the image. That's protected.

11:41:

20 And then you have the next, which is if the  
21 defendants' gross revenue is associated with the infringement.  
22 Of course it is.

11:41:

23 And then thirdly, unless the defendant proves, which  
24 again, no evidence from the defense at this stage, that the  
25 copyrighted work is attributable to factors other than the

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1 copyrighted work, then the jury is directed to say that all of  
2 the profit from the sale of the product is associated with the  
3 infringement and is to be attributed to the infringement.

4 That's the stipulated law.

5 And so on this record, Ms. Romero's testimony, this 11:42:  
6 Court ruled on the specific questions, went to allow the  
7 testimony in, went to sustain, and we believe that what was  
8 left by the Court to be admissible to the jury should be upheld  
9 right now.

10 Thank you. 11:42:

11 THE COURT: Thank you.

12 It's ordered granting the motion to strike that  
13 portion of Ms. Romero's testimony bearing on damages that was  
14 avowed to be connected with something that would eventually be  
15 probative of the issue of damages, and her testimony was, 11:43:  
16 again, of the nature that would have simply invited rank  
17 speculation on the part of the jury, much less bereft of any  
18 connection to the copyright infringement or any alleged unfair  
19 competition.

20 Did you have another motion? 11:43:

21 MR. COLEMAN: Yes, Your Honor.

22 These are interrelated and I think it would be  
23 appropriate for the Court to consider them at the same time.

24 One is a motion to dismiss Larry Sagarin as a  
25 defendant based on the plaintiffs' case. 11:44:

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1 An individual, including a corporate officer, who has  
2 the ability to supervise infringing activity and has a  
3 financial interest in that activity or who personally  
4 participates in that activity is personally liable for the  
5 infringement.

11:44:

6 There's no evidence in this case that Larry Sagarin,  
7 the defendant, is a corporate officer, has the ability to  
8 supervise the activity, has a financial interest in the  
9 activity, or personally participated in the activity. So on  
10 those grounds I would move that the copyright claim against him  
11 be dismissed.

11:44:

12 And as regarding the unfair competition claim, I  
13 think, frankly, there's no evidence whatsoever regarding  
14 anything Larry Sagarin did regarding unfair competition.

15 And then I move regarding both defendants that the  
16 Court dismiss the complaint based on the evidence, based on the  
17 complete lack of damages evidence, the fact that the plaintiff  
18 is not entitled to statutory damages because the infringement  
19 began prior to the registration of the copyrights.

11:45:

20 I just would bring to the Court's attention the fact  
21 that it was about a month ago the Ninth Circuit ruled  
22 definitively in a case called Derek Andrew, Inc. versus Poof  
23 Apparel Corp, which at the moment is found at 2008 USAPP. Lexis  
24 12408, Ninth Circuit, 2008, June 11th, that no statutory  
25 damages are available for a continuing infringement that

11:45:

11:46:

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1 occurred prior to the effective copyright registration date.

2 Denying the suggestion that had been made in that  
3 case, and elsewhere perhaps, that although infringements that  
4 take place before registration may not entitle a party to  
5 statutory damages, subsequent infringements, even if they're 11:46:  
6 in the same nature, could be a grounds for statutory damages,  
7 the Ninth Circuit rejected that concept entirely saying that  
8 that would -- to so rule would be to completely upend the  
9 purpose of Section 412 of the Copyright Act where Congress  
10 sought to provide copyright owners with an incentive to 11:46:  
11 register their copyrights promptly, and where that same act  
12 encourages potential infringers to check the Copyright Office's  
13 database.

14 I think it's clear there are no statutory damages as a  
15 matter of law. There is no evidence in the case at this time, 11:47:  
16 nor has there ever been, of any damages.

17 There was some discussion a brief time ago about the  
18 idea that Designer Skin doesn't sell its pictures, doesn't sell  
19 its renderings. That's exactly right. It doesn't. That's why  
20 this case should be dismissed. This case is about the 11:47:  
21 renderings.

22 In fact, this is a very long version of the same  
23 conclusion that Judge Seybert came to in the identical fact  
24 pattern case involving my client and Australian Gold in the  
25 Eastern District of New York where Judge Seybert said it seems 11:47:

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1 as if plaintiffs -- I'm not quoting directly -- it seems as  
2 if -- in that case it was counterclaim plaintiffs -- are  
3 attempting to use copyright to remedy a harm that is not a  
4 copyright harm.

5 That is precisely the case here. Plaintiffs have now 11:48:  
6 had every opportunity to find a way to enunciate a claim of how  
7 the tort of copyright infringement has harmed their client.  
8 They failed to do so.

9 Similarly, regarding the claim of unfair competition,  
10 not a single one of the elements has been met. There's been no 11:48:  
11 testimony regarding confusion, no testimony regarding false  
12 association, no testimony regarding what actual effect may  
13 possibly have arisen from the juxtaposition of my client's  
14 company logo with images of plaintiffs' bottles in the sale of  
15 those bottles. 11:49:

16 In fact, in all likelihood, the only inferential  
17 damage that -- the only inferential economic effect of my  
18 client's activities, the only intuitively obvious one is that  
19 my client has profoundly benefitted the plaintiff by selling  
20 lots of tanning lotion, and in order to rebut that logical 11:49:  
21 deduction it would appear that there need to be the testimony  
22 of an economics expert or a person with the ability to  
23 demonstrate by reference to very specific financial, economic  
24 or accounting data.

25 To the contrary, absent that, it would appear that the 11:49:

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1 appropriate thing to do would be to apply logic, acknowledge  
2 that nothing has happened to plaintiff here besides that it  
3 has failed to prove any damages, failed to prove that any more  
4 time of the jury or the Court should be spent on the other  
5 claims.

11:50:

6 THE COURT: Thank you.

7 Response?

8 And let me just ask a question. I haven't seen -- let  
9 me get the right names here. I haven't seen anything that  
10 connects any claim in this case with Splash Tanning Products  
11 LLC, an Arizona limited liability company, and Boutique Tanning  
12 Products LLC, an Arizona limited liability company.

11:50:

13 MR. MIZRAHI: Judge, obviously, some of the products,  
14 as stated in the registration, are products that are under the  
15 Splash line. For efficiency in moving forward through the  
16 trial and to avoid confusing the jury and because Splash and  
17 Boutique are subsidiaries of Designer Skin, we've been  
18 proceeding under the general name of Designer Skin. If that's  
19 something that we need to do, obviously, we can parse out which  
20 of the products that we've talked about fall under the lines of  
21 which of the particular --

11:51:

11:51:

22 THE COURT: Well, obviously, in jury instructions the  
23 issue becomes more than just -- we could just lump plaintiffs  
24 together and call them plaintiffs but, on the other hand, we  
25 have -- you know, we have -- most of the evidence -- in fact,

11:52:

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1 to my memory, in terms of the only party referred to -- the  
2 only plaintiff party referred to is Designer Skin. So I'm not  
3 quite sure how you --

4 MR. MIZRAHI: Well, Judge, I mean, we -- in the  
5 opening, I mean, we talked about how --

11:52:

6 THE COURT: Openings don't mean -- I mean, openings  
7 are exactly what we say they are; they're telling the jury what  
8 you hope to prove, but they're not the proof.

9 MR. MIZRAHI: I understand that.

10 And, again, for efficiency and to avoid confusion,  
11 because Splash and Boutique are both owned by Designer Skin,  
12 it's all under the Designer Skin umbrella anyway, and so to  
13 avoid confusion with respect to the different products we've  
14 been referring to it generally as Designer Skin.

11:52:

15 I'm sure on some of the products that we've been  
16 talking about when we've been talking about Designer Skin  
17 generally, you know, I'm sure that the witnesses, like Mike and  
18 Beth, Mr. Shawl and Miss Romero, when they're talking about  
19 Designer Skin's products they're talking about the products  
20 that are owned by Designer Skin and its subsidiaries, which  
21 include Splash and Boutique, and obviously those -- the  
22 registrations are in evidence, the products have been testified  
23 about, the -- it would just be a matter of going back and  
24 parsing through between the registrations and the testimony the  
25 products that were identified and then tie them to the specific

11:53:

11:53:

11:53:



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1 company or --

2 THE COURT: Do the subsidiaries actually -- are they  
3 the holders of certain of those registrations?

4 MR. MIZRAHI: Some of them.

5 THE COURT: Yeah. That's my question.

11:54:

6 MR. MIZRAHI: Some of them.

7 Like, for example, Splash Get Down Brown, Get Down  
8 Brown is the product that's under the Splash brand. They're  
9 all distributed by Designer Skin. Designer Skin is the company  
10 that is distributing all of those brands.

11:54:

11 THE COURT: All right.

12 Someone was about to respond to Mr. Coleman's  
13 argument.

14 Was there going to be a response to Mr. Coleman's  
15 argument?

11:54:

16 MR. CROWN: Yes, Your Honor.

17 Your Honor, we're not going to have a response on the  
18 statutory damages and we would remove statutory damages because  
19 based on the evidence we're -- like I said, there's nothing  
20 more to offer, and in the interest of the record and time, the  
21 statutory damage claim should be removed.

11:54:

22 THE COURT: Dismissed?

23 MR. CROWN: Yes.

24 THE COURT: It's ordered granting the defendants'  
25 unopposed Rule 50 motion to dismiss the claim for statutory

11:55:

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1 damages.

2 And you may continue.

3 MR. CROWN: Your Honor, as submitted, the parties have  
4 stipulated to two damage instructions, actual damages and  
5 profits.

11:55:

6 THE COURT: Well, you know, you've made several  
7 references to the, quote, stipulated nature of the  
8 instructions. I'm not sure what significance that has.  
9 Because just as parties can't stipulate to jurisdiction,  
10 parties cannot stipulate to law, and the Court is the ultimate  
11 decider of the law and the Court must ultimately decide in  
12 instructing the jury whether the evidence warrants a particular  
13 legal instruction.

11:55:

14 Obviously, you know that, but just so that any action  
15 this Court takes is not based on the notion that it's  
16 stipulated; it's based on the Court's own determination as to  
17 what the law is and whether or not the law should be given in  
18 the form of a particular jury instruction and whether or not  
19 the evidence warrants it.

11:56:

20 Anyway, go ahead.

11:56:

21 MR. CROWN: I appreciate that, Your Honor. I also  
22 appreciate that we're arguing this at a point in the trial  
23 before we've had our jury instruction conference. I also  
24 understand that the Court is mindful of what it is inclined to  
25 be instructing the jury on in the event that some or all of the

11:56:

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1 claims survive this Rule 50 motion.

2 On the element of copyright infringement, clearly that  
3 would survive, because monetary damages is only one element and  
4 it's only one of the items of relief that are before the Court.  
5 We also have a prayer for injunctive relief, which would be an  
6 issue for the Court and not the jury.

11:57:

7 So when you look at the record of copyright  
8 infringement, it is uncontradicted. We have evidence that, if  
9 accepted by the jury, they've infringed on copyrighted  
10 electronic renderings. The copyright registrations are in the  
11 record. Mr. Shawl was the author and the creator and his  
12 testimony is uncontradicted.

11:57:

13 He went through in detailed fashion about what goes  
14 into creating his artwork, which is what it is. Electronic  
15 rendering is a form of art. It is copyrightable and it was  
16 copyrighted by the United States Copyright Office and it is  
17 original. And he talked about the many different ways he  
18 creates these images, the bottles, the caps, the lighting, all  
19 products of his mind, original work.

11:57:

20 And --

11:58:

21 THE COURT: I don't think it's disputed, is it, that  
22 it's a copyrightable and indeed a copyrighted image?

23 MR. CROWN: I don't believe so, but my point then is  
24 that he's also then testified that on S & L's website a copy of  
25 his original work was there, and that's without the authority

11:58:

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1 of the law.

2 THE COURT: I think that's stipulated as well, isn't  
3 it?

4 MR. CROWN: No. No. No, it's not. They've  
5 challenged that. If that was it, then I'd like to -- if that's  
6 stipulated to, Judge, then we're entitled to a directed verdict  
7 on that point.

11:58:

8 THE COURT: Well, I'm -- you know, I'm just the judge,  
9 but at page 5 it says S & L -- you read this to the jury.  
10 S & L has displayed and continues to display images of Designer  
11 Skin's products on its website in conjunction with the sale and  
12 marketing of said products. Am I missing something?

11:59:

13 MR. CROWN: Again, Your Honor, while I know that  
14 opening statements are not evidence, as neither closing  
15 arguments --

11:59:

16 THE COURT: I'm talking about something that's in the  
17 pretrial order.

18 MR. CROWN: Your Honor, we have never missed that. I  
19 mean, I -- our position is that it is clear, it is  
20 uncontradicted, and as the -- but if you look at the disputed  
21 issues of fact and law -- I don't want to speak for  
22 Mr. Coleman -- I don't believe they've ever stated or admitted  
23 that we copied your images. Their case, but there's no  
24 evidence of it at this point and, candidly, I doubt that they  
25 will offer any evidence, is that they took photographs.

11:59:

12:00:

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1 So -- and when this Court denied their motion for  
2 summary judgment it framed the issue very clearly: Is this  
3 infringement of copyrighted works, which would be a copy, or is  
4 this a photograph of the bottle?

5 The only evidence in the record, and as the Court's 12:00:  
6 pointed out what is a stipulated fact, is that our copyrighted  
7 images, our protected electronic renderings, have been copied,  
8 and frankly, they were copied identically, which is higher than  
9 the burden we need to show, because as the Court has the law,  
10 the issue is, are there substantial similarities? What we 12:00:  
11 produced is an identical copy.

12 And we've also shown not only the access but the easy  
13 means, which is the right click of a mouse. It is a basic  
14 computer technique, but in our modern world of technology in  
15 dealing with this electronic rendering, if you just put your 12:01:  
16 mouse on a website that has accessible images and you right  
17 click it and then you then put it into your website. And  
18 that's the testimony of Mike Shawl.

19 So I think the record is very, very clear, and the  
20 observation the Court's making, frankly, just adds to the 12:01:  
21 strength of the point that we've proven at this stage that  
22 there was an infringement of our copyrighted work.

23 We've also proven that there has been unfair  
24 competition. I'm just talking about liability. And again, I'm  
25 looking at the ruling that the Court made and the jury 12:01:

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1 instruction, that there is, with the way they present our  
2 copyrighted image, they put it on their web page, which S & L  
3 uses the d/b/a of Body Source on line, it's Exhibit 7, and then  
4 they've got a very clear placement of their triangular logo  
5 right at our copyrighted image. And that is a deliberate,  
6 intentional infringement, and the way they do it with their  
7 logo creates what is a false association and/or impression to  
8 the buying public.

12:02:

9 When this Court ruled on summary judgment it denied  
10 defendants' motion on the unfair competition claim, and so  
11 based on this record and what you have before you, on liability  
12 we have met the elements and met our burden by a preponderance  
13 of the evidence on both copyright infringement and unfair  
14 competition.

12:02:

15 Now, then moving to damages, which is another element,  
16 and again, as I say, this trial is also about our request for  
17 this Court to issue injunctive relief in this case, but when  
18 you look at actual damages there is also issues of defendant  
19 selling our product and being able themselves to make a profit  
20 and doing so with a violation of our copyright, our protection,  
21 both in terms of actual damages, and I've spent a lot of time  
22 arguing those instructions already and I don't want to repeat  
23 and I appreciate that the Court's rulings have been contrary to  
24 what the position is I'm urging, but this motion is different  
25 and so those arguments now in terms of directed verdict on this

12:03:

12:03:

12:03:

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1 record should allow this case to survive and to go to the jury,  
2 but there's additional elements for the unfair competition,  
3 because as this Court has said, these instructions don't end  
4 the inquiry.

5 Miss Romero is the person for Designer Skin, and 12:04:  
6 really the knowledgeable person, not just some member of a  
7 corporate bureaucracy but the hands-on person with a very, very  
8 high level of responsibility, who has given the jury both the  
9 amounts spent in creating the products and getting them to  
10 market that goes into the electronic renderings as well as 12:04:  
11 specific expense items on the diversion protection.

12 And so as a cost and expense that has been caused  
13 directly to them by the infringement and the unfair  
14 competition, we know that they hired a diversion protector  
15 person, we know that part of her time and other staff has had 12:05:  
16 to spend the time and the money to take steps to protect the  
17 copyright, stop the diversion, field the complaints of the  
18 salons, field the complaints of the customers, give out  
19 replacement samples, and we've got specific monetary amounts in  
20 the record that this jury, without speculation and without 12:05:  
21 conjecture, can award. They can say there's been an  
22 infringement, there's been unfair competition, one or both of  
23 those claims, and they can say here's a direct damage as a  
24 result of their unlawful efforts.

25 That should go to the jury. 12:05:

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1 And in unfair competition, there's also the element of  
2 royalties. It's uncontradicted that they have used -- they're  
3 selling our product and they're taking our images without our  
4 authority. That's uncontradicted on the record. And they are  
5 selling and Designer Skin does not receive anything in return.

12:06:

6 So the unfair competition claim and the copyright  
7 image claim --

8 THE COURT: All right. We're going to have to take a  
9 recess. I've got a meeting that I've got to preside over. So  
10 we'll be in recess until 1:15. And I would expect by then you  
11 to package up whatever else you have to say in about five  
12 minutes, and I'll give Mr. Coleman about five minutes to  
13 respond.

12:06:

14 MR. CROWN: Thank you, Judge.

15 (Proceedings recessed at 12:06 p.m.)

12:06:

16  
17 (Proceedings reconvened at 1:17 p.m.)

18 THE COURT: Thank you. Please be seated.

19 The record will reflect the presence of the parties  
20 and counsel outside the presence of the jury.

01:17:

21 You had some additional points to make?

22 MR. CROWN: Thank you, Your Honor.

23 Your Honor, the case of *On Davis versus The Gap, Inc.*,  
24 246 F.3d 152, Second Circuit, 2001, involved the case where a  
25 person had designed jewelry. The Gap clothing store had used

01:18:



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1 that image as a part of its marketing. The court held that  
2 under those circumstances a reasonable royalty would be the  
3 proper measure of damage.

4 I submit to you that that is an analogous fact  
5 pattern and therefore a holding that is instructive to this  
6 Court. 01:18:

7 We do believe, and I'm not going to belabor it because  
8 you've given me limited time, which we appreciate, we've met on  
9 the evidentiary record actual damages and the profit damage,  
10 but our actual damages also is tied to this element. The 01:18:  
11 amount of actual damages can also be represented by lost  
12 license fees the plaintiffs would have received for the  
13 defendants' unauthorized use of plaintiffs' work.

14 Now, royalties and license are, to be sure, synonymous  
15 and related in this context. A license would be when someone 01:19:  
16 lawfully obtains in advance the permission to use a product and  
17 they pay a fee for it. A royalty is the situation here where  
18 we are being asked -- we are trying to ask the jury and for the  
19 Court to allow us to ask after the improper use to pay a fair  
20 amount. 01:19:

21 Now --

22 THE COURT: I'm sorry. Was there any evidence as to  
23 the amount of license fees that were lost and/or royalties that  
24 were lost?

25 MR. CROWN: Well, it is in the terms of the amount 01:19:

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1 that's spent, and this is something that can be calculated and  
2 ultimately determined by the jury.

3 We've heard testimony that over a five-year period the  
4 cost of developing the rendering and then achieving the whole  
5 marketing use and the brochures and the artwork is \$6.2 million  
6 over five years, and that \$6.2 million represented the total  
7 cost for 40 products. These products are done year in, year  
8 out. If we divide the \$6.2 million by five, the math on that  
9 is \$1.24 million per year. If we further divide the \$1.24  
10 million cost per year by 40, you are left with \$31,000 per  
11 product.

01:20:

01:20:

12 I mean, specifically that their products, as  
13 Miss Romero testified, 80 percent, 86 percent, were on S & L's  
14 website used to sell directly our product without our  
15 authority.

01:21:

16 This case involves our clear proof that they violated  
17 the law, and in so doing violated our rights. We have  
18 protected copyright.

19 And to -- after this, to say that because of the  
20 dynamic of an image that is inextricably tied to the sale of a  
21 product, and we can give you the cost for the development of  
22 that image, that it's a no-harm-no-foul, that means that  
23 there's absolutely no way to address what would be an unjust  
24 enrichment and an inequity in favor of S & L.

01:21:

25 There has to be some level of damage that -- if we

01:21:

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1 can't prove the larger amount, in the Court's judgment, there's  
2 got to be, under a royalty analysis supported by the law, the  
3 ability to prevent this unlawful use and unjust enrichment,  
4 whether it be a small damage amount, whether there be some  
5 formula that the jury will take that \$31,000 figure and in and 01:22:  
6 of itself determine what would be a fair royalty under the  
7 circumstances, that ultimately is a jury question.

8 But if we can on this record construct no measure of a  
9 damage under any of the available theories, then it really will  
10 be a wrong without a remedy. They will basically be able to 01:22:  
11 have a free unlawful use.

12 And so I submit, as this Court has said, you  
13 ultimately will decide the law and the jury instruction and the  
14 measure of damage. The record and the information that's in  
15 this record supports this Court identifying a proper measure to 01:22:  
16 address what is an unlawful and what they're trying to argue a  
17 free use, and even if there's a nominal measure, when you  
18 multiply that over the number of products involved and over the  
19 period of time, and we know that it's been going on from 2004  
20 to the present, and that's in the record, there's got to be 01:23:  
21 some measure. And on this record, under the analysis supported  
22 by *On Davis versus The gap, Inc.*, we survive a directed  
23 verdict.

24 A second point to consider is the expense that we have  
25 incurred as a damage item that is directed to S & L, because as 01:23:

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1 Miss Romero said, they employed a specific diversion detection  
2 person at a salary of \$40,000 per year over this relevant time  
3 period. She said that person, and in addition, other  
4 resources, including Miss Romero's time, Mr. Shawl's time, but  
5 specifically there is a person who is dedicated by Designer  
6 Skin, a hundred percent, to go after the S & L Vitamins and to  
7 detect when there's been infringement of copyright.

01:23:

8 If we then look to what Miss Romero said, 30 percent  
9 of that person's time was devoted to the S & L violation  
10 specifically, that is another calculable measure of damage  
11 without speculation that goes to the jury, a direct damage  
12 incurred by Designer Skin as a result of S & L's wrongdoing.

01:24:

13 Thirdly, there needs to be a verdict on liability. As  
14 I said before we broke, we have asked this Court for injunctive  
15 relief. Ultimately, if there is a finding that there has been  
16 copyright infringement and if there's a finding of unfair  
17 competition, then in turn, and even if there's no damages  
18 awarded by the jury, there still needs to be that determination  
19 so that this Court, then, can address the injunctive relief  
20 that we are seeking. That would be the equitable powers of  
21 this Court.

01:24:

01:25:

22 THE COURT: As to injunctive relief, that's  
23 equitable --

24 MR. CROWN: Yes.

25 THE COURT: -- in nature. Does that entitle you --

01:25:

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1 well, a claim in equity, at least the last time I checked,  
2 provided for an advisory jury as opposed to a jury by right.  
3 Am I misrecalling that?

4 In other words, if all we had left was the injunctive  
5 issue, would that entitle you to a jury decision or would that  
6 be simply an advisory jury? 01:25:

7 MR. CROWN: Your Honor, I would hope that you would  
8 let this jury, having heard the evidence, decide the  
9 fundamental questions of whether there was copyright  
10 infringement and whether or not there was unfair competition, 01:26:  
11 and then with those findings of fact this Court can then  
12 decide. I mean, that's where we are here. Whether that is by  
13 right or by just the process of what we've been doing, at this  
14 point I would defer to the Court.

15 And that being said, Judge, we're here at directed 01:26:  
16 verdict and the case is uncontradicted that they violated the  
17 law. Copyright infringement is about basically taking  
18 something that was developed and created by someone else and  
19 basically stealing it. While this is a civil action, that's  
20 exactly what they did. Without authority, without permission, 01:26:  
21 they took something we owned, we created, spent a lot of time  
22 and money and effort in using it, protecting it, and they stole  
23 it.

24 And we've proven that. They have no contradictory  
25 evidence on liability. They have falsely associated and 01:26:

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1 created false impressions. They put their logo with ours. And  
2 that's also unfair competition. This is wrongdoing on their  
3 part that we've proven and there has to be accountability for  
4 that. The accountability will come, if we look at the *On Davis*  
5 *versus The Gap* analysis, through royalty.

01:27:

6 If you believe that our arguments have established  
7 other items of potential damage as defined in actual damage for  
8 the profits, we will present that to the jury and let the jury  
9 decide, but under no circumstances would fairness, on this  
10 record, be that they just are allowed to walk out and say we  
11 took your images, you copyrighted these images, you did a  
12 wrong, but you know what? You're going to get away with it.  
13 That would be the worst result when we've proven that they've  
14 done wrong.

01:27:

15 And so on that record, we believe that we survive the  
16 directed verdict and that there is levels of damages that as  
17 hopefully we'll be talking to you at the instruction conference  
18 that we can then create the right instruction that you will  
19 approve that will let this jury decide what the damage actually  
20 was as a result of their wrongdoing.

01:27:

01:28:

21 Thank you.

22 THE COURT: Thank you.

23 Mr. Coleman?

24 MR. COLEMAN: Briefly.

25 The reference to *On Davis versus The Gap, Inc.* is very

01:28:

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1 interesting. The court says two things there. One of them is  
2 that there actually had been testimony to the effect that there  
3 was licensing of the image in question, including the amount  
4 for which licenses had been granted.

5 That didn't happen here. There never have been 01:28:  
6 licenses. This company's not in the business of generating  
7 images, something that it does incidental to its sale of  
8 merchandise to whoever buys it.

9 There's something else that the court in that case  
10 from the Second Circuit said. 01:29:

11 The de minimus doctrine essentially provides that  
12 where unauthorized copying is sufficiently trivial the law will  
13 not impose legal consequences.

14 I'm not asking the Court to make a ruling of  
15 triviality. I am asking the Court to -- I would rather respond 01:29:  
16 to the suggestion that if something supposedly wrong has taken  
17 place it has to go to the jury, there has to be a liability  
18 ruling. That's not the case. You've got to have a reason to  
19 trouble the people of this district on a jury and the Court and  
20 the parties. 01:29:

21 Regarding the issue of equitable relief, I've urged  
22 this a few times. I understand the Court has not actually  
23 ruled on it in either direction. There are basically two  
24 species of copyright in this case. One is the copyright in the  
25 labels. Plaintiffs have already said, and I've reminded 01:30:

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1 everyone several times, if you took pictures of the labels we  
2 wouldn't have an objection. The renderings that we constantly  
3 hear about, protected by one copyright registration, maybe.  
4 That registration is not in the record.

5 Stipulated facts of the existence of copyrights is not 01:30:  
6 the same as a stipulation to the existence or the timing of a  
7 registration. That registration is not in the record. And  
8 notwithstanding the Court's amendment to the complaint, as the  
9 Court pointed out earlier, the amendment to the complaint does  
10 not create jurisdiction. There is no registration in the 01:30:  
11 record. Therefore, there cannot be jurisdiction over  
12 complaints based on infringement of the copyright protected in  
13 that registration.

14 Very quickly, no royalty, no license evidence, no real  
15 inequity. We sold stuff that they had already sold. They made 01:31:  
16 their money on it.

17 I do just want to address the concept that the  
18 expenses incurred because a company hired people to monitor  
19 someone who, in effect, was a business competitor and to  
20 prepare what is increasingly clear was meritless litigation is 01:31:  
21 hardly a basis for damages.

22 I have no further comments.

23 THE COURT: Thank you.

24 All right. The Court has, obviously, heard the  
25 evidence and heard the arguments of counsel and I have 01:32:



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1 previously granted the motion to strike certain of the damage  
2 evidence from Miss Romero and set forth my reasons why. The  
3 Court has now granted the unopposed motion to dismiss the claim  
4 for statutory damages. I now grant the Rule 50 motion with  
5 respect to actual damages on the bases that there has been no  
6 showing of actual damages suffered as a result of the alleged  
7 copyright infringement.

01:32:

8 As I pointed out earlier, there has been a witting or  
9 unwitting conflation between the alleged lifting of the  
10 electronic image from Designer's website and pasting it on the  
11 S & L website, and yet we've heard virtually all the evidence,  
12 in fact, I think it's fair to say all the so-called damage  
13 evidence, directed at product.

01:33:

14 In other words, the difference here is between the  
15 alleged copyright infringement in connection with the image  
16 and the product distribution issues. It is clear that the  
17 beef, if you may, on the part of the plaintiffs is the selling  
18 of product by S & L, and we've heard evidence in terms of how  
19 much money Designer has spent in their product development,  
20 how much they've spent in their product image, the money  
21 they've spent in their diversion program, and it would appear  
22 that is all directed at seeking out product distributors such  
23 as S & L.

01:33:

01:34:

24 But even if one could assume that somehow it is to  
25 seek out and take action against a copyright infringement of

01:34:

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1 its images, there is no basis for this jury or any reasonable  
2 jury to attempt to connect how much of those expenditures are  
3 connected to the images themselves as opposed to the product  
4 distribution issues.

5 Likewise, the references to S & L's profits are 01:35:  
6 simply, again, gross references to revenues and ultimately to  
7 profits without any reasonable basis to differentiate how much  
8 of that is attributable to the copyright infringement as  
9 opposed to the product sales.

10 It has been argued, but I believe without basis, that 01:36:  
11 the mere fact that the image that has been lifted is now  
12 associated with a product, that somehow that, if you may,  
13 attaches to the product, infects that product such that all  
14 sales of that product can now be made the subject of a damage  
15 calculation. 01:36:

16 This is not a case where an image was lifted and then  
17 was actually placed on somebody else's product and there's an  
18 attempt to force a disgorgement of profits made by that  
19 product. Indeed, as we've said several times, if S & L had  
20 simply photographed the product and used the photograph of the 01:37:  
21 product in connection with its advertisement, that would not be  
22 actionable.

23 There is the argument that there have been lost  
24 licensing fees and/or royalties. There is obviously no  
25 evidence of the quantification of either of those, nor how they 01:37:

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1 might be connected to the alleged infringement.

2 And the suggestion, setting aside the lack of  
3 connection to the infringement, the suggestion that somehow the  
4 jury could take the box car numbers that are in evidence and  
5 somehow calculate what a license fee might be or a royalty 01:38:  
6 might be would simply be to invite them to engage, again, in  
7 the rankest form of speculation and literally creating out of  
8 whole cloth some type of damage number.

9 So for these reasons, the Court concludes that there  
10 is simply an absence of evidence to connect the infringement 01:38:  
11 with actual damages that would allow a reasonable jury to have  
12 a legally sufficient basis to award damages.

13 Now, with respect to the unfair competition claim, I  
14 would remind the parties that -- well, and let me just back up  
15 to say the plaintiffs' obvious theory is that there was unfair 01:39:  
16 competition that -- in the form of S & L -- by S & L's  
17 affixing its logo to or next to Designer Skin's copyrighted  
18 images, S & L has created a false association of itself with  
19 Designer Skin, and I would remind the parties that basically  
20 this same theory was argued in connection with the trademark 01:39:  
21 claims and at oral argument the plaintiffs conceded, as I  
22 believe they should, that the affixing of defendants' logo on  
23 or near the marks did not create a likelihood of customer  
24 confusion. And if that is the case, then I do not see how it  
25 can be argued that affixing of the logo on or near the images 01:40:.

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1 could either.

2 Alternatively, and now having heard the evidence and  
3 seen the evidence and seen the website presentations, it is  
4 clear to me that the portraying of Designer Skin's product  
5 images on the website next to the S & L logo cannot cause any  
6 confusion that somehow S & L is associated with Designer Skin  
7 or is a so-called authorized distributor.

01:40:

8 And again, we must remind ourselves that S & L --  
9 though much to the chagrin of Designer, S & L had a perfect  
10 right to sell this product, and the mere fact the S & L logo is  
11 next to the product does not and I believe could not result in  
12 any bases for confusion.

01:41:

13 In my judgment, this is no different than if this  
14 product had been sold on the Macy's or Nordstrom's website with  
15 Nordstrom's and Macy's logos sprinkled throughout. That would  
16 not be the basis for a claim of confusion. And obviously,  
17 retailers and Internet purveyors of products are doing this  
18 regularly and it cannot and should not be actionable.

01:42:

19 I would just also let the record reflect the, perhaps,  
20 applicability of the first sales doctrine that basically says  
21 once a sale is made the holder of the copyright cannot hold  
22 downstream consumers liable for infringement, and that doctrine  
23 may or may not be applicable here, but again, clearly, clearly  
24 S & L had a right to sell this product with its -- in its  
25 Designer bottle with its Designer label on it.

01:43:

01:43:

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1 So again, the only issue in front of this jury and  
2 before this Court is that narrow issue of the electronic image  
3 being lifted and pasted on the website, and there's been simply  
4 no connection between that and any ascertainable damages.

5 Now, having said that, that still leaves the 01:44:  
6 injunction issue unresolved, and presumably, that issue --  
7 well, I'll ask counsel if that -- how we proceed, then, in  
8 terms of submitting that issue to the jury. I think I've  
9 basically heard from plaintiffs on that, but, Mr. Coleman, are  
10 you prepared to go forward with evidence? What's your view on 01:44:  
11 this issue?

12 MR. COLEMAN: Well, my view number one is that there's  
13 no jurisdiction over the issue. My view number two is I,  
14 frankly, don't see a need for a jury, I would not seek an  
15 advisory jury, and I would be happy to resolve it, frankly, 01:45:  
16 with the Court. Again, I think there are legal reasons why  
17 they may or may not be entitled to any relief of that nature  
18 and evidentiary problems as well, but I don't see the jury  
19 being involved in this at all.

20 THE COURT: Okay. Well, let's assume that we do let 01:45:  
21 it go to the jury. Do you have any evidence to present?

22 MR. COLEMAN: No.

23 THE COURT: All right. Plaintiffs?

24 MR. MIZRAHI: Can I have a moment to confer with my  
25 client? 01:45:

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1 THE COURT: You may.

2 MR. MIZRAHI: Thank you.

3 THE COURT: Let's take a five-minute recess.

4 MR. MIZRAHI: Thank you, Your Honor.

5 (Proceedings recessed at 1:45 p.m.)

01:45:

6  
7 (Thereafter, further proceedings took place in open  
8 court which were reported by the court reporter but not  
9 transcribed herein.)

01:46:

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C E R T I F I C A T E

I, DAVID C. GERMAN, Official Court Reporter, do hereby  
certify that I am duly appointed and qualified to act as  
Official Court Reporter for the United States District Court  
for the District of Arizona.

I FURTHER CERTIFY that the proceedings and testimony  
reported by me on the date specified herein regarding the  
afore-captioned matter are contained fully and accurately in  
the notes taken by me upon said matter; that the same were  
transcribed by me with the aid of a computer; and that the  
foregoing is a true and correct transcript of the same, all  
done to the best of my skill and ability.

DATED at Phoenix, Arizona, this 18th day of July, 2008.

s/David C. German  
DAVID C. GERMAN, RMR, CRR