HOFFMAN POLLAND & FURMAN, PLLC
Attorneys At Law
220 EAST 42nd STREET, SUITE 435
NEW YORK, NEW YORK 10017
(212) 338-0700
FAX (212) 338-0093
www.HPF-Law.com

July 25, 2008

VIA ECF

Honorable James A. Teilborg, U.S.D.J.
United States District Court
Sandra Day O'Connor U.S. Courthouse, Suite 523
401 West Washington Street, SPC 51
Phoenix, AZ 85003-2154

Re: Designer Skin, LLC v. S&L Vitamins
05-CV-3699 (PHX) (JAT)

Dear Judge Teilborg:

We write by way of objection[1] to the proposed form of judgment and permanent injunction filed by plaintiffs, and set forth the reasoned bases for our objections below. Defendants' objections can be summarized as follows:

1. Plaintiffs are not entitled to any injunction because they have not met the Supreme Court's standard placing on them the burden of showing irreparable harm as a prerequisite to injunctive relief;
2. A final judgment must incorporate all substantive matters disposed of in the course of the litigation, whereas plaintiffs' proposed order inexplicably addresses only the one issue on which they "prevailed"; and
3. The breadth of the proposed injunction is far out of proportion to the legal "wrong," if any, to which plaintiffs have proved entitlement to relief, and is so overbroad that it stands foursquare in opposition to specific rulings of the Court prior to and during the trial.
4. Plaintiffs are not entitled to attorneys' fees as a matter of law.

1. Plaintiffs have not met the legal standard for issuance of an injunction. In *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), our Supreme Court unanimously held that a mere finding of infringement (there, of a patent) does **not** automatically entitle the owner of an intellectual property right to an injunction. Rather, like any other plaintiff, the owner of infringed right must satisfy a four-part test to invoke a federal court's equitable powers. At the heart of that test is proof of irreparable, continuing harm. This standard applies in copyright cases, as the Central District of California confirmed in *MGM Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp. 2d 1197 (C.D. Cal. 2007).

[1] In so doing defendants are understood to be addressing only the language of the proposed order, and intend to retain all rights and waive none regarding substantive post-trial motions.

That court quoted the Supreme Court's admonishment in *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) that "An injunction should issue only where the intervention of a court of equity is essential in order effectually to protect property rights against injuries otherwise irremediable. . . .," and continued:

> As recently confirmed by the Supreme Court, Plaintiffs must meet their burden with respect to the traditional four-part test. [A] plaintiff[] "must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. . . . Further, the Supreme Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed.

518 F. Supp. 2d at 1208 (internal quotes and citations omitted). *See also*, *Hologic, Inc. v. SenoRx, Inc.*, 2008 U.S. Dist. LEXIS 36693 at 44 (N.D. Cal., Apr. 25, 2008) (collecting cases). Moreover, "Irreparable harm cannot be established solely on the fact of past infringement. Additionally, it must also be true that the mere likelihood of future infringement by a defendant does not by itself allow for an inference of irreparable harm. . . . **[T]he onus is on Plaintiffs to explain why future infringements . . . would cause irreparable harm.** It cannot be presumed." *Id.* at 1215 (emphasis added).

Applying these standards in this case as the Court must, the irreparable harm inquiry is simple. At trial plaintiffs proved no harm – not past, future, reparable, irreparable or likely.[2] Such a failure of proof, says the Supreme Court, dooms any application for an injunction.[3]

Plaintiffs' proofs at trial also failed regarding the remaining factors:

---

[2] The Court held:

> I now grant the Rule 50 motion with respect to actual damages on the basis that there has been no showing of actual damages suffered as a result of the alleged copyright infringement. . . . [T]he 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.

Excerpted Transcript of Proceedings re: Oral Argument re Rule 50 Motion held on 7/16/08 before Judge James A Teilborg (Document 108) ("Transcript") at 34, 36.

[3] Plaintiffs here would argue, as they did at trial when resisting dismissal of their damages claim, that the mere ownership of copyright entitles them to "some" relief. But this concept, suggested by language regarding copyright's "right to exclude" in Chief Justice Roberts' concurrence in *eBay*, was rejected by the court in *Grokster*:

> [A] competing *eBay* concurrence took issue with Chief Justice Roberts's "right to exclude" language. Justice Kennedy explained his view that "the existence of a right to exclude does not dictate the remedy for a violation of that right." *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring). This Court agrees, since a contrary conclusion would come close to permitting a presumption of irreparable harm.

518 F. Supp. 2d at 1216. Furthermore, any inference of damage could at best only come from the testimony of plaintiff's president, Beth Romero, but all "damages"-related testimony given by her was struck by the Court. Transcript at 12. *See also*, *Davis v. Gap, Inc.*, 246 F.3d 152, 172 (2d Cir. 2001) (cited by plaintiffs, Transcript at 25) ("where unauthorized copying is sufficiently trivial, the law will not impose legal consequences").

- As to the requirement that a plaintiff demonstrate that only equity can provide "compensation" for a harm beyond money damages, where, as here, there is no injury, discussion of compensation is a non-sequitur.

- Similarly, regarding the balancing of hardships, plaintiffs failed to meet their burden to prove they would have to "endure" any "hardships" if an injunction did not issue. In fact, a far more logical inference of the situation is that, absent an injunction, S&L would generate additional sales revenue for plaintiffs – constituting benefit, and no conceivable harm (especially considering the Court's dismissal of plaintiff's meritless "associational" claim sounding in unfair competition). This benefit would be maximized because, according to Mike Shawl's testimony, the "electronic renderings" present the best possible graphic presentation of plaintiffs' products, the purpose of which is to increase sales. This is true regardless of who is using them.

  In contrast, the injunction proposed by plaintiffs would impose draconian restrictions on S&L's ability to conduct its business, forbidding use of **any** images of Designer Skin's products in frank contravention of this Court's previous rulings, and making a sale of S&L's business well nigh impossible. The balance of hardships is clearly in S&L's favor.

- Finally, the public interest does not favor plaintiffs here. The Court made it clear that it understood plaintiffs' real purpose in bringing its copyright claims: To shut down defendants' lawful business selling Designer Skin products. Transcript at 34, 36. In other words, plaintiffs seek to end discounted sales of their merchandise to willing buyers. This hardly favors the public interest.

Based on the foregoing, the Court should strike all injunctive language from the proposed order and enter an order only as to all dispositive issues determined in these proceedings, as set forth in the following section.

2. All legal matters disposed of in the action should be included in the final judgment. The final order in a case should incorporate all prior dispositive rulings, as well as the disposition of withdrawn claims. *See*, e.g., *Lentz v. IDS Fin. Serv.*, 1994 U.S. App. LEXIS 35913 (9th Cir. 1994) ("The Nevada judgment, incorporating a partial grant of summary judgment against the Lentzes on some theories, post-trial involuntary dismissal on others, and a jury verdict on the rest, was final and addressed the merits"); *Crowley v. Courville*, 76 F.3d 47, 51 (2d Cir. 1996). Plaintiffs' proposed form of judgment and permanent injunction only incorporates a few of the many dispositions made both by the Court and the advisory jury here. As it happens, the ones included by plaintiffs in the proposed order are only those that favored plaintiffs. This is entirely improper.

The final judgment ordered by the Court should incorporate all the substantive dispositions in this action, including:

(a) the dismissal of the majority of plaintiffs' claims by summary judgment;

(b) the dismissal of all of plaintiffs' claims against Larry Sagarin on the Rule 50 motion;

(c) the dismissal of plaintiffs' claim for unfair competition under Arizona law on the Rule 50 motion;

(d) the dismissal, upon oral stipulation, of plaintiffs' claims for statutory damages; and

(e) the finding by the advisory jury, presumably to be adopted by the Court, that certain of plaintiffs' claimed copyrights were **not** infringed.

Regarding this last, we note that while defendants did not seek a declaratory judgment of non-infringement of copyright, they are entitled to a final judgment on these issues for purposes of *res judicata*. (Plaintiff has refused to dismiss its identical claims in the still-pending action in the Eastern District of New York despite defendants' offer to do so the same in light of these proceedings.) The final order must reflect all that has been resolved in this litigation, not merely the part that is a balm to the otherwise frustrated plaintiffs.

3. Almost every clause of the proposed injunction is overbroad. We discuss the broad categories of concern separately, below.

The proposed prohibition of "publicly displaying images" is overbroad. Plaintiffs' proposed injunction provides that S&L be "enjoined from directly, indirectly, contributorily or vicariously (1) Publicly displaying images of the following: [List of products]." Designer Skin would have this Court enjoin exactly what both plaintiffs acknowledge S&L has a legal right to do: Utilize images of Designer Skin products on its website, other than the specific "electronic renderings" that were the subject of the trial. Plaintiffs' suggestion that the Court should now prohibit what it has repeatedly ruled is permissible by forbidding the use of all "images" borders on the contumacious.

It is almost as if plaintiffs attended a different trial from the one concluded before Your Honor last week, or, for that matter, the one set down for trial in the Court's Order of May 20, 2008. That Order provided that "the only infringement claim properly before this Court involves the electronic renderings." *Id*. at 12. In fact, at trial Your Honor repeatedly ruled that there is no legal prohibition whatsoever in S&L Vitamins utilizing "images" of products. In its Rule 50 ruling from the bench, the Court found as follows:

> [A]s we've said several times, if S & L had simply photographed the product and used the photograph of the product in connection with its advertisement, that would not be actionable. . . .
>
> [C]learly, clearly S & L had a right to sell this product with its – in its Designer bottle with its Designer label on it.

Transcript at 35, 37. Plaintiffs' proposed order, barring the use of any and all "images" of the products themselves, completely disregards this Court's explicit rulings and plaintiffs' own concession (May 20, 2008 Order at 12, n.9). There was no verdict, finding or ruling that could possibly be the basis of an injunction barring the use of all "images" of Designer Skin products by defendant S&L, which would effectively end its business in the sale of these products. It is the "electronic renderings" that were the sole subject of this trial and which can be the only subject of any injunction; as such they alone must be specified.

The "catchall" paragraph is overbroad. Paragraph (2) of the proposed injunction is another *sub rosa* attempt to beguile the Court into doing, by entry of what should be a simple order of extremely limited scope, what it has manifestly and properly refused to do at every previous stage of this case: Shut down S&L. Designer Skin asks the Court to restrict S&L, including not only as to the "electronic renderings," but (bolded words are from the proposed order), as to:

- **"any copyrighted works,"** including those not found by the jury to have been infringed and those held by the Court not to be a subject of this litigation.

- **"any portions thereof,"** an unconstitutional would-be expansion of the Copyright Act prohibiting what could be permissible use of unidentified "portions," none of which have ever been considered by the Court or the jury, upon no evidence that use of any "portions" of plaintiffs' works would even be an infringement. The Eastern District of California last year rejected similar overreaching language in a proposed injunction, explaining as follows:

  > [T]he proposed injunction would cover infringement of any other works now or hereafter protected by any of Plaintiff's trademarks or copyrights. It would also cover the use of names, logos, or "other variations thereof," terminology which is not sufficiently specific. These aspects of the injunction would be unclear and also would exceed the scope of the infringement.

  Microsoft Corp. v. Evans, 2007 U.S. Dist. LEXIS 77088, 38-39 (E.D. Cal. Oct. 16, 2007) (striking that portion of injunction sought). Here, too, such language is inappropriate.

- **"whether now in existence of later created, in which Designer Skin, or any parent, subsidiary or affiliate, own or controls an exclusive right under the United States Copyright Act,"** a preposterously overbroad category. Such all-encompassing language was rejected in *Warner Bros. Records, Inc. v. Romero*, 2007 U.S. Dist. LEXIS 79848, 3-4 (N.D. Cal. 2007), which explained:

  > To the extent the Plaintiffs request and to the extent the Report can be construed to recommend extending the benefits of the injunction to future works of Plaintiffs' parents, subsidiaries, and affiliate record labels, the Court does not believe the strictures of Rule 65 would be met. These entities are not named in, or otherwise identified in, the Complaint. Thus, if one of these entities were to copyright a work in the future, the defaulting defendant would not be placed on notice that the injunction applied to that entity. The Court therefore finds this aspect of the proposed injunction overbroad and, accordingly, rejects that aspect of the Report.

  The same reasoning applies here. Although certain of Designer Skin's affiliates are named as parties here, there is no way to know what other "parent, subsidiary or affiliate" this would apply to, much less what sorts of "copyrighted works, or any portions thereof," these entities may own or come to own in the future, or what that has to do with S&L Vitamins.

- **"Said injunction includes, without limitation, encouraging, promoting, soliciting, or inducing, or knowingly contributing to, enabling, facilitating, or assisting any person or entity to reproduce, download, distribute, upload, or publicly display any copyright work."** To the extent that this wide-open language is duplicative of the plain provisions of Fed. R. Civ. P. 65(d)(2), which extends injunctions to "A) the parties; (B) the parties' officers, agents, servants, employees, and attorneys; and (C) other persons who are in active concert or participation" with the parties, it is unnecessary. Beyond that, these restrictions may make sense in a case where contributory liability for infringement, conspiracy to infringe, or some other claims implicating concerted action were proved. Here there is neither a claim or proof of any such activity. The term "any

copyrighted work" is also excessively broad.

The requirement that S&L request the Court's approval to sell assets is unjustified. The proposed order would impose a requirement that "prior to S&L entering into any agreement to sell, assign or otherwise transfer any assets in connection with its business, it shall require that the transferee submit to this Court's jurisdiction and venue, agrees to be bound herein, and apply for an order adding the transferee as a party to this injunction." There is no reason for this provision, a type of boilerplate particularly inapplicable where there are no damages. The record is devoid of, and the law does not provide, any reason why this Court should essentially render any aspect of S&L's "business" (an undefined term) impossible to sell. Such an injunction would be a *de facto* imposition of a severe financial sanction in a case where plaintiff has not been damaged in the slightest. Again, use of the language of Fed. R. Civ. P. 65(d)(2) should allay any of plaintiffs' "concerns" on this score.

4. **The provision regarding attorney's fees should be struck.** Under the facts of this case, plaintiffs are not entitled to attorney's fees because their copyright registrations, if any (there is no registration on record for the website, which presumably is the only source for the copyright claimed by plaintiff in its "electronic renderings"), were obtained far too late to qualify under the statute. 17 USCS § 412 provides:

> [No] award of statutory damages or of attorney's fees, as provided by sections 504 and 505, shall be made for—
>
> (1) any infringement of copyright in an unpublished work commenced before the effective date of its registration; or
>
> (2) any infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work.

Recovery of attorney's fees for infringement found by the advisory jury to have been infringed here is barred under the foregoing provision for each and every copyright claimed. This is why plaintiffs withdrew their claim for statutory damages. There is no legal basis for an award of attorneys' fees to be included in the final order and no explanation for why plaintiffs included this proposed language.

Conclusion. Almost every single line of plaintiffs' proposed injunction exceeds any defensible conception of what was resolved as a legal matter in this litigation, what plaintiffs proved at trial, and what relief the law can possibly afford plaintiffs—including the fact that, upon a complete lack of proof of irreparable or other harm at trial, recent Supreme Court precedent instructs that plaintiffs are entitled to no injunctive relief at all. We respectfully request that the Court strike any injunctive provisions and enter an order that justly reflects the disposition of the issues in this matter.

Respectfully submitted,

Ronald D. Coleman

cc: All counsel (ECF)