UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ARIZONA

Designer Skin, LLC, an Arizona limited liability company; et al., Plaintiffs, vs. S & L VITAMINS, INC., d/b/a BODY SOURCE d/b/a THESUPPLENET.COM, a New York corporation; and LARRY SAGARIN, an unmarried individual, Defendants.	CIV 05-3699-PHX-JAT Phoenix, Arizona July 16, 2008 11:28 a.m.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

(**Excerpted Oral Argument re Rule 50 Motion**)

BEFORE: THE HONORABLE **JAMES A. TEILBORG**, JUDGE

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PROCEEDINGS TAKEN BY STENOGRAPHIC COURT REPORTER
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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. 11:29:1 11:29:

Should I make all the motions at once?

THE COURT: Let me deal with that one first and hear a 11:30:

response.

MR. CROWN: Your Honor --

THE COURT: At the podium, please.

MR. CROWN: I've brought to the podium with me the stipulated jury instructions. 11:30:

THE COURT: I'm sorry?

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

THE COURT: And I have read them and reread them, so why don't you just address his point. 11:30:

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

Miss Romero's testimony is relevant on both the elements that we need to prove on both of our claims, copyright infringement as well as unfair competition, and the two types of damages that we will be seeking the jury to award. 11:31:

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

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

MR. CROWN: Okay. 11:31:

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

MR. CROWN: Her testimony addressed all those issues, but in terms of the damages, her testimony established what goes into the integration of these copyrighted electronic renderings, how they are inextricably intertwined with the 11:31:

value of the product.

The product just doesn't have value with lotion, no more so than the liquid in a Coca-Cola bottle is just the liquid and Coca-Cola has no way to protect the shape of its bottle or its name. These are associated with. 11:32:

And what she testified to, within this actual damages, when you bring it all forward from design, conception, creation, manufacturing, then launching and placing on the website, then the distribution, then the training, then the salons, the type of salon, what takes place, the consumer going 11:32:
there, and ultimately you get to this very instruction which says that we are allowed to recover as actual damages the amount of money adequate to compensate the copyright owner for the reduction of the fair market value of the copyrighted work caused by the infringement. 11:32:

The reduction of the fair market value of the copyrighted work is the amount a willing buyer would have been reasonably required to pay a willing seller at the time of the infringement for the actual use made by the defendants of the plaintiffs' work. 11:33:

That is what her testimony ultimately led to and what her points -- I mean, the questions literally used parts of this instruction, the willing buyer that Designer Skin has done all of these extensive efforts, and that's why all of that testimony in terms of what goes into the development and the 11:33:

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

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

MR. CROWN: The purchaser of the suntan lotion products. 11:33:

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

MR. CROWN: The renderings on the bottle. When you buy the product you are buying that rendering. 11:34:

If you're asking me does Designer Skin, in the context of this type of copyright infringement case, sell its image standing alone, no. There is no art store. There is no piece of work. There is no T-shirt. You're not buying the rendering alone. The rendering is part of the bottle. 11:34:

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

And the standard is association. If the -- if a copyright case of this nature requires there to be a distinct purchase of the copyrighted work, like you buy -- you know, you buy a CD, which is the work, versus the package that goes as part of that. 11:34:

It's not a stand-alone. They're not in the business 11:35:

to sell their creative copyrighted renderings. They sell them as an integral component part of their product. And the product in the bottle, if they put it in a plain white bottle, it doesn't sell. If they put it in a plastic bag, it doesn't sell. They go hand in hand. 11:35:

So the ultimate purchaser is buying this copyrighted work. That's what this instruction is depending on. And this instruction doesn't say that you have to only or uniquely buy it as a stand-alone item. It's like, "How much for the lotion?" "How much for the bottle?" "And, by the way, why 11:35:
don't you throw the rendering in."

I'm not trying to be trite. I'm trying to say that different types of protected copyright work will present themselves differently in litigation, and that's why when you have something of this nature, or lotion, which is a -- you 11:35:
know, it's a lotion. It's like a translucent product. By itself, that's not sold. When you go and buy and you pay $50 or $60 for a specific product you are buying as part of that price this copyrighted image. They go inextricably together hand in hand. 11:36:

And that's why the language here --

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

MR. CROWN: Okay.

THE COURT: -- but -- 11:36:

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

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

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

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

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

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

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

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

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

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

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

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

Paragraph F of the stipulated facts says:

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

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

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

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

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

things I said a little while ago on what we need to prove the profits component, the tax returns are in evidence, the profits. And it's their profits. It's not our profits that's the issue when it comes to this damage instruction. It's their profits that we've proven. We know they've sold it. If they sold at least one bottle, that's at least a dollar. It's not zero. 11:41:

If you follow the point I'm making.

It is uncontradicted that they have sold our products, and we've proven that part of the products they sold were in association with the infringed-upon copyrighted electronic renderings. 11:41:

And so, again, and I pointed out, this instruction uses soft language, when it's indirectly related to the infringement, which in part addresses what the Court asked me a little while ago. You said, "Are they buying the image?" We don't do that. We don't sell the image. The image is part of the overall product. When you buy the bottle you've bought, in part, the image. That's protected. 11:41:

And then you have the next, which is if the defendants' gross revenue is associated with the infringement. Of course it is. 11:41:

And then thirdly, unless the defendant proves, which again, no evidence from the defense at this stage, that the copyrighted work is attributable to factors other than the 11:42:

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

That's the stipulated law.

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

Thank you. 11:42:

THE COURT: Thank you.

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

Did you have another motion? 11:43:

MR. COLEMAN: Yes, Your Honor.

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

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

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

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

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

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

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

occurred prior to the effective copyright registration date.

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

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

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

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

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

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

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

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

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

appropriate thing to do would be to apply logic, acknowledge that nothing has happened to plaintiff here besides that it has failed to prove any damages, failed to prove that any more time of the jury or the Court should be spent on the other claims. 11:50:

THE COURT: Thank you.

Response?

And let me just ask a question. I haven't seen -- let me get the right names here. I haven't seen anything that connects any claim in this case with Splash Tanning Products LLC, an Arizona limited liability company, and Boutique Tanning Products LLC, an Arizona limited liability company. 11:50:

MR. MIZRAHI: Judge, obviously, some of the products, as stated in the registration, are products that are under the Splash line. For efficiency in moving forward through the trial and to avoid confusing the jury and because Splash and Boutique are subsidiaries of Designer Skin, we've been proceeding under the general name of Designer Skin. If that's something that we need to do, obviously, we can parse out which of the products that we've talked about fall under the lines of which of the particular -- 11:51:

THE COURT: Well, obviously, in jury instructions the issue becomes more than just -- we could just lump plaintiffs together and call them plaintiffs but, on the other hand, we have -- you know, we have -- most of the evidence -- in fact, 11:52:

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

MR. MIZRAHI: Well, Judge, I mean, we -- in the opening, I mean, we talked about how -- 11:52:

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

MR. MIZRAHI: I understand that.

And, again, for efficiency and to avoid confusion, 11:52:
because Splash and Boutique are both owned by Designer Skin, it's all under the Designer Skin umbrella anyway, and so to avoid confusion with respect to the different products we've been referring to it generally as Designer Skin.

I'm sure on some of the products that we've been 11:53:
talking about when we've been talking about Designer Skin generally, you know, I'm sure that the witnesses, like Mike and Beth, Mr. Shawl and Miss Romero, when they're talking about Designer Skin's products they're talking about the products that are owned by Designer Skin and its subsidiaries, which 11:53:
include Splash and Boutique, and obviously those -- the registrations are in evidence, the products have been testified about, the -- it would just be a matter of going back and parsing through between the registrations and the testimony the products that were identified and then tie them to the specific 11:53:

company or --

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

MR. MIZRAHI: Some of them.

THE COURT: Yeah. That's my question. 11:54:

MR. MIZRAHI: Some of them.

Like, for example, Splash Get Down Brown, Get Down Brown is the product that's under the Splash brand. They're all distributed by Designer Skin. Designer Skin is the company that is distributing all of those brands. 11:54:

THE COURT: All right.

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

Was there going to be a response to Mr. Coleman's argument? 11:54:

MR. CROWN: Yes, Your Honor.

Your Honor, we're not going to have a response on the statutory damages and we would remove statutory damages because based on the evidence we're -- like I said, there's nothing more to offer, and in the interest of the record and time, the statutory damage claim should be removed. 11:54:

THE COURT: Dismissed?

MR. CROWN: Yes.

THE COURT: It's ordered granting the defendants' unopposed Rule 50 motion to dismiss the claim for statutory 11:55:

damages.

And you may continue.

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

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

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

Anyway, go ahead.

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

claims survive this Rule 50 motion.

On the element of copyright infringement, clearly that would survive, because monetary damages is only one element and it's only one of the items of relief that are before the Court. We also have a prayer for injunctive relief, which would be an issue for the Court and not the jury. 11:57:

So when you look at the record of copyright infringement, it is uncontradicted. We have evidence that, if accepted by the jury, they've infringed on copyrighted electronic renderings. The copyright registrations are in the record. Mr. Shawl was the author and the creator and his testimony is uncontradicted. 11:57:

He went through in detailed fashion about what goes into creating his artwork, which is what it is. Electronic rendering is a form of art. It is copyrightable and it was copyrighted by the United States Copyright Office and it is original. And he talked about the many different ways he creates these images, the bottles, the caps, the lighting, all products of his mind, original work. 11:57:

And -- 11:58:

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

MR. CROWN: I don't believe so, but my point then is that he's also then testified that on S & L's website a copy of his original work was there, and that's without the authority 11:58:

of the law.

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

MR. CROWN: No. No. No, it's not. They've challenged that. If that was it, then I'd like to -- if that's stipulated to, Judge, then we're entitled to a directed verdict on that point. 11:58:

THE COURT: Well, I'm -- you know, I'm just the judge, but at page 5 it says S & L -- you read this to the jury. S & L has displayed and continues to display images of Designer Skin's products on its website in conjunction with the sale and marketing of said products. Am I missing something? 11:59:

MR. CROWN: Again, Your Honor, while I know that opening statements are not evidence, as neither closing arguments -- 11:59:

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

MR. CROWN: Your Honor, we have never missed that. I mean, I -- our position is that it is clear, it is uncontradicted, and as the -- but if you look at the disputed issues of fact and law -- I don't want to speak for Mr. Coleman -- I don't believe they've ever stated or admitted that we copied your images. Their case, but there's no evidence of it at this point and, candidly, I doubt that they will offer any evidence, is that they took photographs. 11:59: 12:00:

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

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

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

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

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

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

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

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

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

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

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

That should go to the jury.

And in unfair competition, there's also the element of royalties. It's uncontradicted that they have used -- they're selling our product and they're taking our images without our authority. That's uncontradicted on the record. And they are selling and Designer Skin does not receive anything in return. 12:06:

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

THE COURT: All right. We're going to have to take a recess. I've got a meeting that I've got to preside over. So we'll be in recess until 1:15. And I would expect by then you to package up whatever else you have to say in about five minutes, and I'll give Mr. Coleman about five minutes to respond. 12:06:

MR. CROWN: Thank you, Judge.

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

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

THE COURT: Thank you. Please be seated.

The record will reflect the presence of the parties and counsel outside the presence of the jury. 01:17:

You had some additional points to make?

MR. CROWN: Thank you, Your Honor.

Your Honor, the case of *On Davis versus The Gap, Inc.*, 246 F.3d 152, Second Circuit, 2001, involved the case where a person had designed jewelry. The Gap clothing store had used 01:18:

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

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

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

Now, royalties and license are, to be sure, synonymous and related in this context. A license would be when someone lawfully obtains in advance the permission to use a product and they pay a fee for it. A royalty is the situation here where we are being asked -- we are trying to ask the jury and for the Court to allow us to ask after the improper use to pay a fair amount. 01:19:1 01:19:4

Now --

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

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

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

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

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

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

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

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

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

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

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

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

Miss Romero said, they employed a specific diversion detection person at a salary of $40,000 per year over this relevant time period. She said that person, and in addition, other resources, including Miss Romero's time, Mr. Shawl's time, but specifically there is a person who is dedicated by Designer Skin, a hundred percent, to go after the S & L Vitamins and to detect when there's been infringement of copyright. 01:23:

If we then look to what Miss Romero said, 30 percent of that person's time was devoted to the S & L violation specifically, that is another calculable measure of damage without speculation that goes to the jury, a direct damage incurred by Designer Skin as a result of S & L's wrongdoing. 01:24:

Thirdly, there needs to be a verdict on liability. As I said before we broke, we have asked this Court for injunctive relief. Ultimately, if there is a finding that there has been copyright infringement and if there's a finding of unfair competition, then in turn, and even if there's no damages awarded by the jury, there still needs to be that determination so that this Court, then, can address the injunctive relief that we are seeking. That would be the equitable powers of this Court. 01:24: 01:25:

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

MR. CROWN: Yes.

THE COURT: -- in nature. Does that entitle you -- 01:25:

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

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

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

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

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

created false impressions. They put their logo with ours. And that's also unfair competition. This is wrongdoing on their part that we've proven and there has to be accountability for that. The accountability will come, if we look at the *On Davis versus The Gap* analysis, through royalty. 01:27:

If you believe that our arguments have established other items of potential damage as defined in actual damage for the profits, we will present that to the jury and let the jury decide, but under no circumstances would fairness, on this record, be that they just are allowed to walk out and say we 01:27:
took your images, you copyrighted these images, you did a wrong, but you know what? You're going to get away with it. That would be the worst result when we've proven that they've done wrong.

And so on that record, we believe that we survive the 01:27:
directed verdict and that there is levels of damages that as hopefully we'll be talking to you at the instruction conference that we can then create the right instruction that you will approve that will let this jury decide what the damage actually was as a result of their wrongdoing. 01:28:

Thank you.

THE COURT: Thank you.

Mr. Coleman?

MR. COLEMAN: Briefly.

The reference to *On Davis versus The Gap, Inc.* is very 01:28:

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

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

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

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

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

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

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

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

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

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

I have no further comments.

THE COURT: Thank you.

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

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. 01:32:

As I pointed out earlier, there has been a witting or unwitting conflation between the alleged lifting of the electronic image from Designer's website and pasting it on the S & L website, and yet we've heard virtually all the evidence, in fact, I think it's fair to say all the so-called damage evidence, directed at product. 01:33:

In other words, the difference here is between the alleged copyright infringement in connection with the image and the product distribution issues. It is clear that the beef, if you may, on the part of the plaintiffs is the selling of product by S & L, and we've heard evidence in terms of how much money Designer has spent in their product development, how much they've spent in their product image, the money they've spent in their diversion program, and it would appear that is all directed at seeking out product distributors such as S & L. 01:33: 01:34:

But even if one could assume that somehow it is to seek out and take action against a copyright infringement of 01:34:

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

Likewise, the 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. 01:35:

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

This is not a case where an image was lifted and then was actually placed on somebody else's product and there's an attempt to force a disgorgement of profits made by that product. Indeed, as 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. 01:37:

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

might be connected to the alleged infringement.

And the suggestion, setting aside the lack of connection to the infringement, the suggestion that somehow the jury could take the box car numbers 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. 01:38:

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. 01:38:

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

could either.

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.

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

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

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

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

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

MR. COLEMAN: No.

THE COURT: All right. Plaintiffs?

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

THE COURT: You may.

MR. MIZRAHI: Thank you.

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

MR. MIZRAHI: Thank you, Your Honor.

(Proceedings recessed at 1:45 p.m.) 01:45:

(Thereafter, further proceedings took place in open court which were reported by the court reporter but not 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