

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

MARY KAY, INC.,

Plaintiff,

v.

CASE NO.: 3-08-CV-776-G

AMY L. WEBER, SCOTT J. WEBER,
and TOUCH OF PINK COSMETICS,

Defendants.

**DEFENDANTS' REPLY IN SUPPORT OF THEIR RENEWED MOTION FOR JUDGMENT
AS A MATTER OF LAW, OR IN THE ALTERNATIVE,
MOTION FOR NEW TRIAL AND BRIEF IN SUPPORT**

Defendants Amy Weber, Scott Weber and Touch of Pink Cosmetics file this Reply in Support of Their Renewed Motion for Judgment as a Matter of Law, or in the Alternative, Motion for New Trial and Brief in Support and for good cause show this Court as follows:

INTRODUCTION

The matters at issue in Defendants' Renewed Motion for Judgment have been argued and briefed extensively by the parties in the summary judgment pleadings and in the post-verdict briefing. Therefore, Defendants will try to avoid simply repeating previous arguments but will try instead to summarize key legal and factual issues that support their positions and address Mary Kay's statements in its Response.

**THE JURY'S FINDING THAT AN ACCOUNTING OF PROFITS IS
APPROPRIATE IS NOT SUPPORTED BY THE EVIDENCE AT TRIAL**

A simple review of Lanham Act cases in the Fifth Circuit and the other Circuit courts around the United States that use the multi-factor test articulated in *Tour 18* shows the high bar that must be

cleared to support an accounting of profits. There was no evidence presented in this case that supports or justifies such a finding in this case.

Mary Kay's analysis of the *Quick Technologies* factors ignores the developed case law and/or re-characterizes the nature of the test. For example, Mary Kay claims that because the jury rejected Defendants' laches defense, Mary Kay 'wins' the unexcused delay factor. These are two separate analyses. Unexcused delay is only one of three elements necessary to prove laches and the burden of proof differs between Plaintiff's claim for damages and Defendants' affirmative defense of laches. As the Court is aware, the elements of the affirmative defense of laches are (1) actual or constructive knowledge; (2) unreasonable delay; and (3) undue prejudice. Although on a motion for judgment, all inferences are in favor of the jury's verdict, it does not mean one can presume the reasons for such a finding or make a presumption in favor of Plaintiff. While Defendants believe the jury erred in its laches finding, as set forth in the motion for new trial, one cannot assume or presume that the basis for their finding was that there was not an unreasonable delay. Perhaps they decided based on one of the factors other than delay. Neither the Court nor the parties' know how or why the jury reached its decision and such questions are irrelevant. The only relevant inquiry is whether, based on the legal standards related to an accounting of profits under the Lanham Act, that decision was supported at all by the evidence and/or whether the finding is against the great weight of evidence.

Other than relying on the jury's incorrect rejection of the laches defense, Mary Kay does not address this issue further. The question on the accounting of profits is whether there was an unexcused delay. The evidence shows that the only correct answer is yes. Mary Kay knew of the Webers' eBay site, under the eBay seller name scottw815, by at least June 2005 [Trial Ex. 26, App. 3-4]. They knew the Webers opened an eBay store Mary Kay 1 Stop, under the seller name scottw815, by at least August 2005 [Trial Ex. 30, App. 5-6]. While Mary Kay complained in letters

to Amy Weber in the summer of 2005 that she was breaching her IBC Agreement by selling on eBay, it did not complain about the age of the items or the use of the Mary Kay name to identify the products sold on the site. Mary Kay submitted VeRO complaints to eBay about the Webers' eBay store using the name Mary Kay 1 Stop and photographs on the site in November 2005 [Pike 662:9-15, App. 7]. In January 2006, Mary Kay wrote to Scott Weber about the use of the Mary Kay name in a domain name and the presence of certain photographs. Scott Weber called the Mary Kay legal department immediately and when he asked how to avoid trouble with Mary Kay he was told to comply with the letter. Nancy Pike admitted the January 6, 2006 letter did not tell Mr. Weber to stop selling Mary Kay on the internet, stop selling discontinued or expired products, or products that do not have the Mary Kay satisfaction guarantee. [Pike 667:7-21, 667: 24-668:5, App. 8-9]:

Nancy Pike went back on the site shortly after speaking with Mr. Weber, saw that the Webers had complied with the letter and knew that the Webers changed the name of their business to Touch of Pink. [Pike 668:6-16, App. 9]. The Webers did not alter what they were selling; they simply changed names. And despite notice from IBCs about the Webers continuing business, Mary Kay did nothing until May 2008.

As discussed in the Webers' Renewed Motion and in their Response to Mary Kay's Motion for Judgment, the Webers had no reason to know that Mary Kay disapproved of their business because Mary Kay was silent. The only excuse offered by Mary Kay was from Laura Bietler who said "we never want to file a lawsuit if we don't have to, particularly against a beauty consultant or even a former beauty consultant. It's really the last thing we want to do. So we had to proceed with caution, and we put a lot of careful thought and consideration into making the decision to file this lawsuit. [Bietler 274:12-18, App. 10]. Neither Ms. Bietler nor any other witness ever explains why there was not a cease and desist letter or some other communication to the Webers from January 6, 2006 until

suit was filed May 7, 2008. The evidence clearly and unequivocally shows that the Webers proceeded to build a business and earn profit during Mary Kay's unexcused delay. There is no contradicting evidence on this point upon which a reasonable juror could rely.

Mary Kay also takes an interesting approach to the question of a diversion of sales when it points to the Court's Order on the Webers' summary judgment motion, rather than trial evidence, to support its position. Mary Kay's argument on this point is also at odds with its complaint that the Touch of Pink sites offer older Mary Kay products. If Mary Kay IBC's only sell new products and 75% of what the Webers sell is discontinued or past shelf life, how can the Webers be diverting sales from Mary Kay? The parties' stipulated that the Webers buy from current and former IBCs. The evidence also established that Mary Kay IBCs bought all of these goods from Mary Kay. So, as Mary Kay admitted, it made all the money it could make on the goods sold by the Webers. It cannot be a diversion of sales to re-sell a product already sold by Mary Kay [Shasteen 169:10-15, App. 11]. The evidence shows that Mary Kay's revenue has increased yearly, and no evidence was presented by Mary Kay to show that the revenue would have increased by a greater amount but for the Webers. Thus, no reasonable juror could have found against the Webers on this point.

On the adequacy of other remedies, Mary Kay continues to belittle the extensive changes made by the Webers to their websites since the jury verdict, but does not articulate any argument at all as to how the changes are insufficient. More importantly, the issue of post-verdict changes is not relevant in any way to Defendants' renewed motion for judgment. However, Defendants cannot resist the urge to respond to the accusations by Mary Kay so will address the points raised. The Webers are not "skirting the line of permissible conduct." Rather, they made extensive changes to address Mary Kay's complaints (all of which were first articulated at various times during the 10 month litigation or at trial) and proposed a broad, yet reasonable injunction if the Court finds one to

be appropriate. It is worth noting that even Mary Kay has not asked for a complete injunction to enjoin all sales of Mary Kay products. Some of the points raised by Mary Kay are discussed below:

1. Mary Kay said people could be confused because the disclaimers were not prominent enough – the Webers added a prominent disclaimer in a banner that extends across the top and bottom of each page of touchofpinkcosmetics.com and along the top and other locations on the Touch of Pink eBay store and added the disclaimer to all written communications from Touch of Pink.
2. Mary Kay complained that people could be confused or misled because the Webers were not clear enough about the fact that they offered discontinued, past shelf life and expired products – the Webers added a prominent statement across the top of their internet sites and added that information to all outgoing communications.
3. Mary Kay complained there was too much pink – the Webers changed the color scheme on the website.
4. Mary Kay complained that consumers could be confused about the affiliation between Mary Kay and Sheer Miracle (despite the fact that both are manufacturers and there was no evidence that any consumer associated Sheer Miracle with Mary Kay) -- the Webers added a large notation on the Sheer Miracle page that it is not a Mary Kay product.

As discussed at length in the Webers' Response to Mary Kay's Motion for Judgment, the Webers sought to address each of Mary Kay's complaints and these efforts demonstrate that if the Court declines to disregard the jury's verdict or grant a new trial, that there is an adequate remedy that has been voluntarily imposed by the Webers.

The fact is that no matter what the Webers do, Mary Kay will complain that their efforts are insufficient because Mary Kay wants to shut the Webers' business down, even though the re-sale of Mary Kay trademarked products is permissible under the law. The question is whether under the

evidence presented at trial the jury could find that there was not an adequate remedy without an award of profits. The undisputed evidence established that the Webers willingly made changes to their business in early 2006 when Mary Kay complained of specified issues. The evidence at trial also showed that the Webers added an express disclaimer to the home page after the lawsuit in light of Mary Kay's complaints. Mary Kay then points to the change as proof the Webers knew they were wrong (further demonstrating that the Webers can do no right in the eyes of Mary Kay), when it actually demonstrates a willingness to address potentially valid complaints.

Mary Kay relies on arguments of counsel and speculation about jury motivation rather than facts to address the remaining issues. There was no evidence presented of consumer confusion related to the age of products sold on Touch of Pink or of any harm that came from the purchase or use of those products. Mary Kay repeatedly claims that TOP sells "defective" products but did not present any evidence of a single defective Mary Kay product sold by the Webers.¹ Instead, Mary Kay points to testimony from its witnesses of what may or might happen. Moreover, the Webers have offered for sale discontinued, past shelf life and expired products since they started their business in 2005. Mary Kay never complained about these sales, either in January 2006 when their intellectual property lawyer John Wiseman wrote to them, when Nancy Pike spoke to Scott Weber or in its Complaint. The genuineness of Mary Kay's complaints about product age at trial should be judged in light of those facts.

Significantly, the limited evidence on product quality shows that the Webers' return rate was similar to the return rate by customers who returned product to IBCs who returned the product to Mary Kay corporate under the Mary Kay guarantee. Mary Kay's head of product quality (Rene Wickham) testified that the return rate was evidence of good product quality and if it is good

¹ Mary Kay may have been attempting to present evidence on specific products purchased by Mary Kay from Touch of Pink, but backtracked after objection was made to Mary Kay's failure to turn such evidence over, despite it being specifically requested in discovery. [Trial Transcript 435:14 – 436:22, App. 12-13]

evidence of Mary Kay's product quality, that same rate is likewise good evidence of the Webers. There is no evidence that would allow a jury to conclude that the public interest will be served by making discounted and/or discontinued Mary Kay products available to the public.

On the element of willfulness, Mary Kay edits quotes in a misleading way. For example, Ms. Weber did not testify that women associate pink with Mary Kay. She testified that pink can be associated with lots of things and said "I guess people can associate pink with Mary Kay." [Trial Transcript 495: 14-23, Plaintiff's App. p. 55]. Further, Ms. Weber did not testify that "obvious similarity between product slogans was 'completely random.'" Rather, Ms. Weber testified repeatedly that she had never seen the Mary Kay advertising campaign that Mr. Tillotson quizzed her on and when Mr. Tillotson responded "[c]ompletely random?" she simply said yes. [Trial Transcript 539:25-540:24, App. 14-15]. Consistent with its closing argument, Mary Kay in its Response mischaracterized relatively benign statements to belittle and demonize the Webers. A review of the evidence presented at trial, as discussed in Defendants' Motion, does not support a finding of willfulness, either relating to the accounting of profits or on liability.

WILLFULNESS WAS ADDRESSED IN THE MOTION

Rule 50(b) serves two purposes: to enable the trial court to re-examine the question of evidentiary insufficiency as a matter of law if the jury returns a verdict contrary to the movant, and to alert the opposing party to the insufficiency before the case is submitted to the jury, thereby affording it an opportunity to cure any defects in proof should the motion have merit. *Bohrer v. Haynes Corp.*, 715 F.2d at 216; *see also Halsell v. Kimberly-Clark Corp.*, 683 F.2d 285, 294 (8th Cir.1982), *cert. denied*, 459 U.S. 1205, 103 S.Ct. 1194, 75 L.Ed.2d 438 (1983). A review of Defendants' motion for judgment at trial establishes that Defendants moved broadly for judgment. Not only did Defendants address the issues relating to consumer confusion, but also addressed the

issue of intent or willfulness in stating as follows:

“...there is no evidence of an intent to confusion [sic], that the Webers were actually trying to pass themselves off as Mary Kay or lead people to believe they were Mary Kay. They don't copy the site or use any of the language or claim to be an authorized distributor.”

[Trial Transcript p. 647, App. 16] The willfulness standard is the same on the damage issue as it is on the liability issues – whether there was intent to deceive. Thus, Defendants’ did not waive this argument. Mary Kay had the burden to establish this factor on the liability portion of the case and on the damage/accounting portion of the case. As set forth in Defendants’ motion for judgment and renewed motion for judgment, the evidence presented by Mary Kay in its attempt to carry its burden is insufficient as a matter of law.

LINK ON EBAY TO THE TOP WEBSITE DOES NOT SHOW LIKELY CONFUSION

Mary Kay’s sole argument relating to eBay is that one can get from eBay to touchofpinkcosmetics.com so whatever was relied upon by the jury to find confusion as to the website applies equally to eBay. It provides no case support for this argument. Defendants’ requested that the jury charge inquire as to the two sales sites separately because Mary Kay did not provide a single piece of evidence that would suggest a likelihood of consumer confusion caused by or arising from the Webers’ eBay site. Mary Kay did not present any evidence that an eBay user ever believed that the Webers’ eBay store was related to or affiliated with Mary Kay. All of the emails and testimony presented by Mary Kay related solely to www.touchofpinkcosmetics.com. Without proof consumer confusion, all of Mary Kay’s claims as they relate to the eBay store fail as a matter of law.

THE JURY’S DECISION WAS AGAINST THE GREAT WEIGHT OF EVIDENCE

Mary Kay apparently ignored the first 15 pages of Defendants’ Renewed Motion when in its Response it complained that Defendants’ failed to explain how the jury’s verdict on liability,

willfulness and the affirmative defenses of first sale and nominative fair use were against the great weight of evidence or ignored the statement that those 15 pages of argument were incorporated, rather than repeated, for the sake of brevity. But to the extent Defendants' basis for its motion for new trial on these issues was not clear, the Webers reiterate that if this Court denies their Renewed Motion, they seek a new trial, which is a different standard for the trial court to consider the jury verdict. The trial court's power to grant a new trial on the basis of the court's firm belief that the verdict is clearly contrary to the weight of the evidence has "long been regarded as an integral part of trial by jury." C. Wright, *Federal Courts* 633 (4th ed. 1983). In making this determination, the district court weighs all the evidence, but need not view it in the light most favorable to the nonmoving party. While the court is to respect the jury's efforts and should not simply substitute its opinion for the jury's, "[i]f the trial judge is not satisfied with the verdict of a jury, he has the right- and indeed the duty-to set the verdict aside and order a new trial." *Id.* at 634. The arguments made in the Webers' Renewed Motion for Judgment on the issues of liability, willfulness, fair use and first sale apply equally to the new trial standards.

THE JURY'S FINDING ON LACHES IS CONTRARY TO THE EVIDENCE AT TRIAL

The Webers did not move for judgment on the issue of laches, and thus have moved only for a new trial on this defense. This issue has been argued extensively, but Mary Kay has a new twist when it claims it did not really monitor the Touch of Pink website, despite the admissions of its own employees. A look at Ms. Pike's entire testimony, and not part of one sentence, shows that Ms. Pike, a legal department employee, received emails about the Webers' Touch of Pink business from 2005-2008, she reviewed the complaints and the site and then took those to her supervisor, John Wiseman, for review. Mary Kay's legal department acknowledged its awareness via an email to a Mary Kay independent beauty consultant dated December 31, 2007, that it was aware of the site and

had been in communication with the owner of the site. Willful blindness by the trademark owner is not a defense to laches.

The second issue on laches is undue delay, which was discussed above and has been extensively briefed. Rather than repeat Defendants' arguments and authorities stated above and in previous briefing on the issue of undue delay, Defendants incorporate those arguments and authorities herein.

Finally, on the issue of prejudice, the evidence clearly established prejudice and Mary Kay does not challenge such evidence. The simple, undisputable fact is that Mary Kay knowingly allowed the Webers to invest substantial sums of money in building a business and to gut that business now would be highly prejudicial. The Webers had a small, home-based business that they operated out of a spare room in their home. After their communications with Mary Kay, and logical belief that their business was not causing Mary Kay any concern, they expanded the operation by increasing purchases, hiring employees and renting a warehouse from which they began to operate their business. Meanwhile, Mary Kay was receiving communications from IBCs that Mary Kay's chief intellectual property counsel was informed of and did nothing. Instead, they allowed the Webers to incur great expense. To find that the Webers were not prejudiced by the almost three year delay from when Mary Kay learned of the Webers' business to when it complained of the conduct at issue is certainly against the great weight of evidence.

WHEREFORE, Defendants Amy L. Weber and Scott J. Weber respectfully request that after consideration of this Motion and the evidence presented at trial that the Court grant their Renewed Motion and grant Defendants such other and further relief to which they may show themselves justly entitled.

Respectfully submitted,

/s/ Elizann Carroll

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CERTIFICATE OF SERVICE

I hereby certify that on May 22, 2009, I electronically filed the foregoing with the clerk of the court by using the CM/ECF system, which will send a notice of electronic filing to counsel for Mary Kay, Inc. who are authorized to receive electronically Notices of Electronic Filing:

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