

UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

ENTREPRENEUR MEDIA, INC.,  
a California corporation,

Plaintiff-Appellee,

vs.

SCOTT SMITH,  
dba EntrepreneurPR,

Defendant-Appellant,

---

} **Case No. 03-56431**

} (DC No. CV-98-03607 FMC)

} Central District of California

On Appeal from Judgment of the United States District Court  
For the Central District of California  
Honorable Florence-Marie Cooper

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**APPELLANT'S OPENING BRIEF**

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Glenn W. Peterson, Esq. (CA #126173)  
Daniel N. Ballard, Esq. (CA #219223)  
MCDONOUGH HOLLAND & ALLEN PC  
Attorneys at Law  
555 Capitol Mall, 9th Floor  
Sacramento, California 95814  
Phone: 916.444.3900  
Fax: 916.444.3249

*Attorneys for Defendant-Appellant  
Scott Smith, dba EntrepreneurPR*

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## STATEMENT OF JURISDICTION

This appeal is brought from a final judgment of the United States District Court for the Central District of California that disposed of all issues between the parties. (Appellant's Excerpts of Record, 675-78 ("ER").) This Court, therefore, has jurisdiction under 28 U.S.C. § 1291. The District Court had jurisdiction over the trademark infringement claims under 28 U.S.C. §§ 1331 and 1338(a) and had jurisdiction over the state claim of unfair competition under 28 U.S.C. §§ 1338(b) and 1367(a). Appellant Scott Smith timely filed a Notice of Appeal on August 7, 2003. (ER 643-44.)

## STATEMENT OF ISSUES

The following issues are presented in this trademark infringement dispute involving the common noun "entrepreneur":

- 1) Whether the District Court abused its discretion by failing to adhere to the law of the case, and related doctrine of mandate, by permanently enjoining Smith's use of the marks "EntrepreneurPR," "Entrepreneur Illustrated," and "entrepreneurpr.com."
- 2) Whether the District Court abused its discretion by failing to consider Smith's fair use defense.
- 3) Whether the District Court misapplied the *Sleekcraft* factors by finding that the mark ENTREPRENEUR was strong and distinctive and that Smith's marks created a likelihood of confusion.
- 4) Whether the District Court erred by holding that Smith willfully infringed the mark ENTREPRENEUR.
- 5) Whether the District Court erred by holding that Smith violated California's Unfair Competition Law.

6) Whether the District Court abused its discretion by awarding profits and attorneys' fees to EMI.

### **STATEMENT OF THE CASE**

In its operative complaint below, Plaintiff/Appellee Entrepreneur Media, Inc. ("EMI") alleged trademark infringement, unfair competition, and counterfeiting under the Lanham Act and unfair competition under California Business and Professions Code section 17200. (ER 1-19.)

Both parties moved for summary judgment. (ER 26-28, 131-33.) The District Court granted EMI's motion on the trademark infringement and unfair competition claims, denied EMI's motion on the counterfeiting claim, and denied Smith's motion in its entirety. EMI thereupon dismissed its claim for counterfeiting. After supplemental briefing, the Court awarded EMI \$337,280 in damages and enjoined Smith from using any marks confusingly similar to EMI's ENTREPRENEUR mark, including the word "Entrepreneur" and the terms "EntrepreneurPR," "Entrepreneur Illustrated," and "entrepreneurpr.com." (ER 433-35.)

Smith timely filed a Notice of Appeal on September 11, 2000. (ER 430-32.) On October 23, 2000, this Court denied Smith's emergency motion to stay the judgment pending appeal. This Court rendered a published opinion on February 11, 2002, reported at *Entrepreneur Media, Inc. v. Scott Smith*, 279 F.3d 1135 (9th Cir. 2002). This Court affirmed in part, reversed in part, and remanded certain issues for trial. *Id.* at 1153.

The matter was tried on remand by the District Court, sitting without a jury, on April 29, 30, and May 2, 2003. On June 23, 2003, the District Court issued its Findings of Fact and Conclusions of Law and ruled in favor of EMI on all claims. (ER 679-90.) The District Court awarded EMI \$669,656.00 in

compensatory damages. Based on its finding that Smith “willfully infringed” EMI's mark and its finding that the case was "exceptional," the District Court awarded EMI attorneys' fees. (ER 645-49.) Its Judgment was entered on July 10, 2003. (ER 675-78.) The District Court's injunction, once again, permanently enjoined Smith from using any marks confusingly similar to EMI's ENTREPRENEUR mark, including the word "Entrepreneur" and the terms "EntrepreneurPR," "Entrepreneur Illustrated," and "entrepreneurpr.com." (*Id.*) The District Court subsequently awarded \$39,267.46 in costs and \$680,985.00 in attorneys' fees to EMI on August 13, 2003. (ER 645-49.)

Smith timely filed a Notice of Appeal on August 7, 2003. (ER 643-44.)

### **STATEMENT OF FACTS**

Smith has operated a public relations business for entrepreneurs since 1995. (ER 140.) At its founding, Smith named his company ICON Publications ("ICON"). *Id.* In 1997, ICON began to distribute a publication, the *Yearbook of Small Business Icons*, containing press releases that featured its entrepreneur clients. *Id.* The *Yearbook* was distributed free of charge to media outlets to promote their interest in publishing articles about the featured entrepreneurs. *Id.* ICON's clients contracted to be included in the *Yearbook*. *Id.* ICON also operated a website for entrepreneurs at iconpub.com. *Id.*

In 1997, because of feedback he received from media and business contacts, Smith began to explore the possibility of renaming his company. (*Id.*) Smith hired LogoLab to help him fashion a name that more accurately described his company's market niche. *Id.* After brainstorming with Smith, LogoLab performed an extensive trademark search to determine the federal and state registration status of certain potential marks. (ER 140-41; 317-21; 371-98; 691-716.) LogoLab then presented Smith with a number of unregistered marks,

among them “EntrepreneurPR” and “Entrepreneur Illustrated.” (ER 388-96, 692-94.) LogoLab also performed a search for the word “entrepreneur” in certain commercial databases. (ER 394-96.) LogoLab reported to Smith that the word formed part of at least 230 existing marks owned by different parties. (ER 694-96, 717-27.) LogoLab determined the availability of “EntrepreneurPR,” “entrepreneurpr.com,” and “Entrepreneur Illustrated” as domain names. Moreover, as noted by this Court, over 1,000 website domain names contain the word “entrepreneur.” (ER 392, 297, 279 F.3d at 1143.)

Relying on this very extensive use by others, and considering the absence of any registration for his potential marks, Smith changed the name of his company to EntrepreneurPR, his publication to *Entrepreneur Illustrated*, and his website to entrepreneurpr.com. (ER 315-23, 767.) *Entrepreneur Illustrated* was circulated quarterly to about 3,800 media outlets. (ER 82; 140.) It was not available for sale or subscription. (ER 141.) *Entrepreneur Illustrated* never featured advertisements or articles of general interest to entrepreneurs. (*Id.*) EntrepreneurPR’s clients each paid approximately \$10,000 for one year’s worth of public relations services, including promotion to media contacts and a feature article in *Entrepreneur Illustrated*. (ER 140.)

In August 1998, Smith submitted trademark registration applications for “Entrepreneur Illustrated” and “EntrepreneurPR.” (ER 166-73.) The United States Patent and Trademark Office refused registration to “Entrepreneur Illustrated” on the grounds that it was merely descriptive of Smith’s publication. (ER 166-68.) The registration for “EntrepreneurPR” was granted but later suspended as a result of a misplaced, timely-filed opposition by EMI. (ER 170-76, 309.)

EMI admits that EntrepreneurPR is not a competitor. (ER 304.) EMI’s marketing brochure reveals that EMI does not provide public relations services.

EMI's management does not include public relations services in its description of EMI's corporate goals. (ER 728-55.) EMI's only proximity to public relations is its website link to an unaffiliated company named PR Newswire. (ER 756-63.)

Since 1978, EMI has published *Entrepreneur* magazine, a monthly publication that provides "editorial" content and features articles of general interest to entrepreneurs as well as advertising directed at entrepreneurs. (ER 746, 766, 775-79.) In contrast to Smith's publication, EMI does not sell its editorial content, i.e., people cannot purchase feature articles or publicity in *Entrepreneur* magazine. (ER 778.) *Entrepreneur* magazine claims a paid subscription of about 550,000 and claims it is read by nearly 2 million people per month. (ER 746, 780-82.) EMI freely distributes about 100 issues to media outlets per month. (ER 766, 783-85.) Advertising in *Entrepreneur* magazine costs the advertiser from \$9,000 to over \$60,000 per issue. (ER 163.) EMI maintains a website at entrepreneur.com. (ER 288.)

EMI has a federal registration for the mark ENTREPRENEUR. (ER 766-67.) The mark was published on the Principal Register in 1987 in international classes 9 and 16; the latter for printed matter, namely magazines, books, and reports pertaining to business opportunities. (*Id.*) The mark is incontestable as to class 16 by virtue of EMI's Section 15 declaration under the Lanham Act. (ER 97-98, 289-90, 767.) EMI has federal registrations for a number of other marks that contain the word "entrepreneur." (ER 290, 767.)

EMI has shown acquiescence to third-party use of "entrepreneur." EMI solicits and accepts advertising for its magazine from other companies that use "entrepreneur" as part of their marks and frequently uses "entrepreneur" as a common noun. (ER 230-31; 740-55, 786-96.) *Entrepreneur* magazine editor, Rieva Lesonsky, endorsed *The Young Entrepreneur's Edge*, a book not published by EMI. (ER 233; 797-99.) Lesonsky has also appeared on the CNN television



show "Entrepreneurs Only." (ER 220-26; 800-03.) In January 1999, Smith, EntrepreneurPR, and *Entrepreneur Illustrated* were positively featured in the EMI magazine, *Entrepreneur's Small Business Start-Ups*. (ER 247, 804-05.)

This Court has already determined that the word "entrepreneur" is a common descriptive noun for which there is no synonym. (279 F.3d at 1142-43; see also ER 267-69, 806-11.) EMI, in fact, agrees and asserts there is no other adequate description for one "who grows his or her own business." (ER 286.) Numerous other businesses also have registered trademarks that incorporate the word "entrepreneur." (ER 249-64; 812-33, 279 F.3d at n. 7.) Numerous magazines use the word "entrepreneur" as part of their titles. (ER 282-83, 279 F.3d at n. 6.) Moreover, EMI acknowledged at trial that even minor variations in the font style employed are sufficient to disassociate these other publications from EMI. (ER 230, 789, 791-92, 795-96.) Smith's linguistic expert testified the word "entrepreneur" occurs with relatively high frequency. (ER 268-73, 834-37.)

EMI did not provide any survey evidence to establish consumer confusion between the mark ENTREPRENEUR and any of Smith's marks. (ER 838-42.) EntrepreneurPR's consumer base consisted of media outlets throughout the country and entrepreneurs seeking public relations services. (ER 140, 843-47.) EntrepreneurPR's entire client database was produced in discovery and admitted at trial. (ER 839.)

EMI's evidence of actual confusion came from eight disgruntled clients and two disgruntled employees of Smith's. (ER 55-58, 65-66, 331-41, 344-67, 848-89.) Four of his former clients gave deposition or declaration testimony on summary judgment. Demarest, Cesare-Taie, Chippi, and Bresnahan each claimed they discerned a possible relationship between EntrepreneurPR and Entrepreneur. (*Id.*) Demarest, Chippi, and Bresnahan were, however, Smith clients when he

used the name ICON (ER 55; 65, 210), rendering their professed confusion highly suspect. In addition, Demarest, Cesare-Taie, and Chippi all had payment disputes with Smith. (ER 142, 852-63, 869-71, 880, 891-93.) Although Bresnahan was an ICON client and paid for Smith's services, he testified he never made any payments to Smith. (ER 210-18; 336.) Indeed, as a result of intervening problems, Bresnahan could not even recall when he first spoke to Smith. (ER 332-33.)

The testimony of five additional disgruntled clients was presented at trial. (ER 848-93.) Their testimony did not qualitatively enhance the prior record. *Id.* Each had legal battles or payment disputes with Smith. (ER 851, 856-60, 866-67, 887.) Each one's "perceived affiliation" between Smith and EMI was based on collateral matters, or merely the visual similarity of the covers of the parties' publications. (ER 848-93.) Thus, the additional testimony did not vary qualitatively from the evidence on summary judgment, nor was it representative of the perception of a reasonable consumer. *Id.*

The two former employees, Kym Gurley and Patty Kufasimes, claimed some people they contacted asked if there was a connection between EntrepreneurPR and *Entrepreneur* magazine. (ER 347; 358.) No evidence was introduced at trial, however, to differentiate between those people who were actually confused and those who merely discerned some association between EntrepreneurPR and *Entrepreneur*. *Id.* In addition, these two employees never mentioned the alleged consumer inquiries to Smith or to any other EntrepreneurPR employee. *Id.* These particular employees had a strained relationship with Smith. (ER 142.) Another of Smith's employees, however, testified that during his long period of employment only one or two people inquired as to a possible connection between EntrepreneurPR and *Entrepreneur* magazine. (ER 139.)

## STANDARD OF REVIEW

EMI claims its mark was infringed by: (1) Smith's publication, *Entrepreneur Illustrated*, (2) Smith's business name, "EntrepreneurPR," and (3) Smith's domain name, "entrepreneurpr.com."

In Smith's previous appeal, this Court disposed of EMI's claim of trademark infringement as to *Entrepreneur Illustrated* and remanded EMI's claims as to EntrepreneurPR and entrepreneurpr.com. On remand, however, the District Court tried the entirety of EMI's case. Thus, the District Court's judgment with respect to *Entrepreneur Illustrated* is reviewed for an abuse of discretion under the law of the case doctrine. *U.S. v. Alexander*, 106 F.3d 874, 876 (9th Cir. 1997).

Normally this Court would review for clear error the District Court's judgment as to whether EntrepreneurPR and entrepreneurpr.com would likely cause confusion with the mark ENTREPRENEUR. *Levi Strauss & Co. v. Blue Bell, Inc.*, 778 F.2d 1352, 1355 (9th Cir. 1985). Here, however, the District Court was bound by this Court's previous rulings of law and analytical directives regarding the *Sleekcraft* factors that underlie that analysis. This Court left the door open to depart from its directives only as to certain factors and then only to the extent that additional evidence admitted at trial would justify deviation.<sup>1</sup> The District Court's findings with respect to the *Sleekcraft* factors, therefore, should be

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<sup>1</sup> See, e.g., 279 F.3d at 1141 [consider *Sleekcraft* factors "as a whole"]; *Id.* ["on this record . . . EMI's mark is weak"]; *Id.* at 1142 [EMI's mark is descriptive]; *Id.* [incontestable status does not require finding mark is strong]; *Id.* at 1144 [at trial, EMI may prove greater strength, but "on this record EMI has demonstrated no more"]; *Id.* at 1147 ["we would still conclude that Smith's domain name is not as a matter of law similar to EMI's mark"]; *Id.* at 1147-48 [relatedness of goods in this case should be given "little weight" in determining likelihood of confusion because "EMI's mark is weak"]; *Id.* at 1148 [apply sliding scale to weight "relatedness" factor]; *Id.* at 1148 [similarity does not render the business closely related as to suggest strong likelihood of confusion]; *Id.* at 1151 [to constitute infringement, mark must be likely to "confuse an appreciable number of people"]; *Id.* at 1152 [relevant consumers are "moderately sophisticated"]; and *Id.* at 1153 [district court must apply *Sleekcraft* factors with "that caution in mind"].

reviewed for an abuse of discretion with respect to the additional evidence presented at trial. If the additional evidence was insufficient to justify departure from the law of the case, then it was an abuse of discretion for the District Court to do so.

The District Court's award of damages and attorneys' fees is reviewed for abuse of discretion.

### **SUMMARY OF ARGUMENT**

This appeal presents important, though redundant, issues of trademark law having general societal interest. The underlying question raised by this appeal is to what extent a trademark owner can usurp a common noun from the English language and appropriate it for commercial use. Many of the issues raised are redundant, not just because this Court has already reviewed them in this very case, but because they were resolved in this very case. The District Court, however, with abject disregard for the law of the case, improperly and unnecessarily resurrected those issues on remand.

In Smith's earlier appeal, he successfully challenged the grant of summary judgment to EMI awarding it \$337,280.00 in damages and enjoining Smith from using any mark confusingly similar to EMI's ENTREPRENEUR mark, including the word "Entrepreneur" and the terms "EntrepreneurPR," "Entrepreneur Illustrated," and "entrepreneurpr.com." This Court affirmed a small aspect of that judgment, but reversed the remainder. In doing so, this Court held that EMI's mark is "weak" as a matter of law. 279 F.3d at 1141. This Court also held that "on the continuum of marks" EMI's mark "falls within the descriptive category." *Id.* at 1141-42. "The need of others in the marketplace to use the term 'entrepreneur' to describe their goods or services confirms that EMI's mark is descriptive." *Id.* at 1142. This Court further observed that "the common and necessary uses of the

word 'entrepreneur' provide strong evidence that EMI cannot have the exclusive right to use the *word* 'entrepreneur' in any mark identifying a printed publication addressing subjects related to entrepreneurship.” *Id.* at 1143-44 (emphasis in original).

On this basis, the Court reversed and remanded, with the following directive to the trial court: “On remand, the district court should devise an injunction that only enjoins Smith from using the term ‘Entrepreneur Illustrated’ on the cover of a printed publication in a manner that obstructs or otherwise downplays the word ‘illustrated.’” *Id.* at 1153. The case was remanded on the issue of damages, “if appropriate” (*Id.*) and whether injunctive relief should be extended to limit or preclude Smith’s business name (“EntrepreneurPR”) and website domain name (“entrepreneurpr.com”).<sup>2</sup> As to these remanded issues, this Court reserved very little discretion to the District Court:

Although EMI has the exclusive right to use the trademark “ENTREPRENEUR” to identify the products described in its registration, trademark law does not allow EMI to appropriate the word “entrepreneur” for its exclusive use. The descriptive nature and common, necessary uses of the word “entrepreneur” require that courts exercise caution in extending the scope of protection to which the mark is entitled. We have applied the *Sleekcraft* factors with that caution in mind, and, on remand, the district court should as well.

*Id.* at 1153 (emphasis added).

Rather than try the remanded issues and abide by this Court’s mandate to “devise an injunction that only enjoins Smith from using the term ‘Entrepreneur Illustrated’ on the cover of a printed publication in a manner that obstructs or otherwise downplays the word illustrated,” (*Id.*, emphasis added) the District Court tried the entirety of Plaintiff’s case and, in doing so, disregarded this

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<sup>2</sup> “We therefore reverse the grant of summary judgment and remand except as to that issue [the printed publication].” 279 F.3d at 1153.

Court's mandate. Moreover, at trial, the District Court failed to adhere to the law of the case established by this Court. The District Court, for example, failed to consider Smith's fair use of the marks, despite this Court's finding that he could fairly use *Entrepreneur Illustrated* so long as he did not visually downplay the word "Illustrated." (*Id.*)<sup>3</sup>

In addition to its departure from the mandate of this Court, the District Court also failed to adhere to the law of the case, and further disregarded this Court's explicit analytical limitations of the likelihood of confusion. The most flagrant disregard for the law of the case is reflected in the District Court's finding that, "The mark ENTREPRENEUR is a strong distinctive mark, deserving of significant protection." (ER 687.) In contrast, this Court held that EMI's mark was an inherently weak mark in a "crowded field of marks." 279 F.3d at 1144. Although this Court left the door open for EMI to establish at trial that its "mark is stronger than it currently appears . . .", EMI failed to present materially different evidence at trial. The District Court, therefore, abused its discretion in elevating EMI's mark to one that is "strong and distinctive" and "deserving of significant protection."

Normally, this Court inquires only whether there was substantial evidence to support the ruling of the court below; this case, however, requires consideration of the quality and weight of the additional evidence presented at trial. Only then might this Court evaluate whether the District Court was justified in its vast departures from the law established in the prior appeal. We shall demonstrate

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<sup>3</sup> Under the rule of mandate, a district court receiving the mandate of an appellate court "cannot vary it or examine it for any other purpose than execution." *United States v. Cote*, 51 F.3d 178, 181 (9th Cir. 1995). In this connection, a trial court is precluded from supplementing the remedy mandated by the appeals court. The lower court is bound by the decree as the law of the case, and must carry it into execution according to mandate. *In re Sanford Fork & Tool Co.*, 160 U.S. 247 (1895).

more fully below that the District Court possessed neither the quantity nor the quality of evidence to depart from this Court's prior holdings. Smith requests this Court reverse and vacate the District Court's judgment and permanent injunction.

### ARGUMENT

#### **I. Smith's Use Of The Word "Entrepreneur" To Describe His Goods And Services Is Permitted Under The Doctrine Of Fair Use**

This Court was forced to state the obvious in Smith's prior appeal: "trademark law does not allow EMI to appropriate the word 'entrepreneur' for its exclusive use." 279 F.3d at 1153.

Although this Court held that the appearance of the cover of Smith's publication would likely confuse an appreciable number of consumers, it also held that Smith could continue to use the word "entrepreneur" as long as the word "illustrated" was not downplayed. *Id.* This reasonable restriction was consistent with the aforementioned admonition and the Court's recognition that there are "common, necessary uses of the word 'entrepreneur.'" *Id.* This Court, therefore, has already determined it is fair for Smith to use the word "entrepreneur" to describe his publication. It follows that EMI, by choosing the weak descriptive mark ENTREPRENEUR for a magazine devoted to entrepreneurs, must accept the risk that others' use of the word—and thus its mark—may cause some measure of confusion among consumers. It is axiomatic that trademark law tolerates more similarity in a "crowded field" and relies on consumers to pick out one from the other. *Miss World (UK) Ltd. v. Mrs. America Pageants, Inc.*, 856 F.2d 1445, 1449 (9th Cir. 1988) (citation omitted).

**A. The District Court Abused its Discretion by Completely Enjoining Smith From Using the Term "Entrepreneur Illustrated" in Connection with His Publication**

In Smith's prior appeal this Court affirmed the District Court's grant of summary judgment that Smith's use of "Entrepreneur Illustrated" infringed EMI's ENTREPRENEUR mark. *Id.* at 1140-41, 1153. The lower court was instructed to "devise an injunction that only enjoins Smith from using the term 'Entrepreneur Illustrated' on the cover of a printed publication in a manner that obstructs or otherwise downplays the word 'Illustrated.'" *Id.* at 1153 (emphasis added).

A lower court in receipt of an appellate mandate "cannot vary it or examine it for any other purpose than execution." *United States v. Cote*, 51 F.3d 178, 181 (9th Cir. 1995). The lower court must proceed in accordance with the mandate and such law of the case as was established by the higher court. *Firth v. United States*, 554 F.2d 990, 993 (9th Cir. 1977). Failure to apply the law of the case, absent an exception, constitutes an abuse of discretion. *U. S. v. Alexander* at 876.

In spite of this Court's affirmance of summary judgment on this issue and in spite of this Court's mandate to issue a narrow injunctive remedy, the District Court on remand tried the entirety of the case anew, including issues related to Smith's use of "Entrepreneur Illustrated." In its Judgment following trial, the District Court issued a permanent injunction prohibiting Smith from using the mark "Entrepreneur Illustrated" "in commerce or in connection with the sale, offering for sale, distribution, and/or advertising of (1) paper goods and printed matter, and/or (2) advertising and business services, including online services." (ER 676.)

This Court, however, held that Smith could rightfully use the term "Entrepreneur Illustrated" on the cover of a printed publication. This fair use of the term necessarily includes the right to do so "in commerce" and "in connection



with the sale . . . of . . . printed matter." The District Court's injunction prohibits these activities and far exceeds, in letter and in spirit, the restrictions fashioned by this Court. The District Court, therefore, abused its discretion by failing to dispense the injunctive relief mandated by this Court. This conclusion is clear in light of this Court's requirement that the District Court "exercise caution in extending the scope of protection" to the ENTREPRENEUR mark. *Id.* at 1153.

**B. The District Court Failed to Consider Smith's Rightful Use of the Term "Entrepreneur Illustrated" When Considering its Award of Damages**

This Court's injunctive mandate permitting Smith to use *Entrepreneur Illustrated* to describe his publication—provided the two words appear equal in size—is literally a holding that such use is fair and does not infringe EMI's mark. On those occasions, then, when Smith used the term as permitted by this Court, no damages should flow. The award of damages is reviewed for an abuse of discretion. *Polo Fashions, Inc. v. Dick Bruhn, Inc.*, 793 F.2d 1132, 1134 (9th Cir. 1986).

This Court correctly assumed that the words "Entrepreneur" and "Illustrated" were of equal size when used on the entrepreneurpr.com website. (ER 894-99.) Smith also used equal-sized words in marketing material and in other locations within his publication. (ER 82-95, 894-99.) In fact, the only place where the words were not of equal size was on the cover of his publication. (ER 81.) The District Court ignored this Court's guidance on the matter and did not consider Smith's rightful use of the term "Entrepreneur Illustrated." 279 F.3d at 1145 & fn. 9.

If any damages are due from Smith's use of *Entrepreneur Illustrated*, then those damages must be based solely on his use of the term on the cover of his publication. No other use constitutes an infringement and, therefore, no other use

can form the basis for a damages award. 15 U.S.C. §1117(a). By failing to consider and distinguish Smith's rightful use of the term in calculating its award of damages, the District Court abused its discretion.

**C. The District Court Abused its Discretion by Failing to Apply the Doctrine of Fair Use to Smith's Use of "EntrepreneurPR" and "entrepreneurpr.com"**

This Court's injunctive mandate permitting Smith to use the word "entrepreneur" in the title of his publication *Entrepreneur Illustrated*, in conjunction with this Court's edict to exercise caution in extending the scope of protection to ENTREPRENEUR, obligated the District Court to evaluate whether Smith's uses of "EntrepreneurPR" and "entrepreneurpr.com" were also fair. The District Court's failure to consider this defense was an abuse of discretion.<sup>4</sup>

Classic fair use is the right to use another's mark to truthfully describe one's own product. *New Kids on the Block v. New America Pub., Inc.*, 971 F.2d 302, 306 (9th Cir. 1992). "By choosing a descriptive term, the trademark owner must live with the result that everyone else in the marketplace remains free to use the term in its original 'primary' or descriptive sense." 2 J. Thomas McCarthy, *McCarthy on Trademark and Unfair Competition* § 11:45 (4th ed. 2001). This right was enacted into law by the Lanham Act and was recognized by the Supreme Court as a necessary counterbalance to incontestable marks. 15 U.S.C. § 1115(b)(4); *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 201 (1985). Here, Smith engaged in classic fair use because he used the word "entrepreneur" to describe his own goods and services rather than EMI's magazine. *New Kids*, 971 F.2d at 309; 279 F.3d at 1142.

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<sup>4</sup> Smith's fair use defense is found within his acquiescence and first amendment defenses in his operative answer. (ER 25.) It is further found in the Pretrial Conference Order (ER 769-71) under subpart (b), entitled "Facts for Affirmative Defenses."

Controlling Supreme Court precedent establishes the rule that "[t]he use of a similar name by another to truthfully describe his own product does not constitute a legal or moral wrong, even if its effect be to cause the public to mistake the origin or ownership of the product." *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 528 (1924) (emphasis added). This rule has been applied since the beginning of our republic and controls today. *Del. & H. Canal Co. v. Clark*, 80 U.S. 311, 324, 327 (1872) (citing cases dating from 1783); *Sunmark, Inc. v. Ocean Spray Cranberries, Inc.*, 64 F.3d 1055, 1059 (7th Cir. 1995) (Easterbrook, J.).

This Court's mandate permitting Smith to use *Entrepreneur Illustrated* on his publication about entrepreneurs—in light of EMI's use of ENTREPRENEUR on its publication about entrepreneurs—is consistent with the Restatement's position that it is not an infringement to use a descriptive term fairly and in good faith to describe one's own goods "even if some residual confusion is likely." Restatement (Third) of Unfair Competition, § 28, comment b (1995). In fact, the Restatement recognizes that use of another's mark may be fair to describe one's own goods even if a likelihood of confusion is shown. *Id.*

This Circuit has held, however, that use of another's mark is not fair if that use causes a likelihood of confusion. *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1151 (9th Cir. 2002). Other circuits have felt obliged by precedent and logic to adopt the Restatement position.<sup>5</sup> *Leathersmith of London, Ltd. v. Alleyn*, 695 F.2d 27, 31 (1st Cir. 1982) (fair use provides "full defense" to claim of infringement); *Sunmark*, 64 F.3d at 1059 (7th Cir. 1995); *Shakespeare Co. v. Silstar Corp. of Am., Inc.*, 110 F.3d 234, 242-43 (4th Cir. 1997), *Soweco, Inc. v.*

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<sup>5</sup> See the Reporter's Note to the Restatement § 28, comment b.

*Shell Oil Co.*, 617 F.2d 1178, n. 30 (5th Cir. 1980).<sup>6</sup> This Circuit's recent adoption of its position is based on thin authority<sup>7</sup> and is contrary to Supreme Court precedent. Although Smith argues that the District Court erred in finding a likelihood of confusion as to Smith's use of "EntrepreneurPR" and "entrepreneurpr.com," even if some measure of confusion was established at trial, fair use still permits Smith to use the word "entrepreneur" as part of these marks.

Use of another's mark is fair if (1) the mark is not used as a trademark, (2) the mark is used "fairly and in good faith," and (3) the mark is only used to describe the defendant's goods. 15 U.S.C. § 1115(b)(4).<sup>8</sup> The fair use of a mark is a complete defense to a claim of infringement. *Id.*

#### **1. Smith did not use ENTREPRENEUR as a trademark**

First, the fact that Smith used "EntrepreneurPR" as a business name does not preclude fair use. *Leathersmith of London, Ltd. v. Alleyn*, 695 F.2d 27, 31 (1st Cir. 1982); *Johnson Publishing Co. v. Etched-In-Ebony, Inc.*, 213 U.S.P.Q. 995 (D.D.C. 1981); *Vision Center v. Opticks, Inc.*, 596 F.2d 111, 119 (5th Cir. 1979); *Houston v. Berde*, 52 U.S.P.Q. 270 (1942); *Hygrade Food Products Corp. v. H.D. Lee Mercantile Co.*, 46 F.2d 771 (10th Cir. 1931).

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<sup>6</sup> *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 791 (5th Cir. 1983), holds otherwise though it seems to be an anomaly in the 5th Circuit in light of *Soweco and Pebble Beach Co. v. Tour 18 I, Ltd.*, 155 F.3d 526, n.12 (5th Cir. 1998). *Zatarains* was also criticized on other grounds by *Car-Freshener Corp. v. S.C. Johnson & Son, Inc.*, 70 F.3d 267 n.1 (2nd Cir. 1995).

<sup>7</sup> Its origin begins with *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 911 F.2d 363, 366 (9th Cir. 1990) which relies upon *Zatarains*, 698 F.2d 786 (see note 6).

<sup>8</sup> Among the circuits that have not expressly adopted the Restatement position, a number evaluate infringement using these factors rather than their circuit's formulation of the likelihood of confusion test. *M.B.H. Enterprises, Inc., v. WOKY, Inc.*, 633 F.2d 50, 56 (7th Cir. 1980); *Microware Systems Corp. v. Apple Computer Inc.*, 126 F.Supp.2d 1207 (S.D. Iowa 2000), *aff'd* 238 F.3d 989 (8th Cir.) (affirming grant of summary judgment based on analysis of fair use factors).

Second, although Smith did use "EntrepreneurPR" and "entrepreneurpr.com" as trademarks, Smith did not use ENTREPRENEUR as a trademark. Smith simply used the word "entrepreneur" as part of his composite marks. As this Court noted, the word "entrepreneur" is a "common, descriptive word in the English language" which makes any difference between it and Smith's marks significant. 279 F.3d at n. 9. The addition of the letters "PR" to the word "entrepreneur" is significant because it generates a mental pause sufficient for consumers to differentiate between Smith's marks and the common noun "entrepreneur" and EMI's ENTREPRENEUR mark. 3 Callman, *Law of Trademarks* § 82.1(i), at 722 ("Where a trademark is itself weak, minor additions may effectively negate any confusing similarity").

The addition of "PR" is particularly significant because it suggests the provision of public relations services to entrepreneurs—a vastly different meaning than the word "entrepreneur" standing alone. The focus of Smith's mark is the "PR" element. It is the creative conjunction of this element with the word "entrepreneur" that is used as a trademark and which distinguishes Smith's mark from ENTREPRENEUR. The "entrepreneur" element simply describes his clients. If the common element of two marks is weak in that it is descriptive of the named goods or services, consumers typically will be able to avoid confusion.<sup>9</sup> In sum, Smith used the word "entrepreneur" as a necessary adjunct to create a composite

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<sup>9</sup> For example, Bed & Breakfast Registry for making lodging reservations for others in private homes was held not likely to be confused with Bed & Breakfast International for room booking agency services. *In re Bed & Breakfast Registry*, 791 F.2d 157 (C.A.F.C. 1986). Cobbler's Outlet for shoes was held not likely to be confused with California Cobblers. *The U.S. Shoe Corp. v. Chapman*, 229 USPQ 74 (TTAB 1985). Aso Quantum (with "Aso" disclaimed) for diagnostic laboratory reagents held not likely to be confused with Quantum I for laboratory instrument for analyzing body fluids. *In re Istituto Sieroterapico E Vaccinogeno, Toscano "SCLAVO" S.p.A.*, 226 USPQ 1035 (TTAB 1985).

mark describing his company. He did not use ENTREPRENEUR as a stand-alone trademark.

## **2. Smith Used the Word "Entrepreneur" Fairly and in Good Faith**

Some courts improperly conflate this element with a likelihood of confusion analysis. The "good faith" requirement, however, is not the same as requiring a finding of no likelihood of confusion. Good faith is simply shorthand for the conclusion that the mark was used in "a way that does not deceive the public." *Prestonettes, Inc. v. de Spoturno Coty*, 264 U.S. 359, 368 (1924) (Holmes, J.); *Del. & H. Canal Co.*, 80 U.S. at 327 (although purchasers may be mistaken, as long as they are not deceived by false representations equity will not enjoin against telling the truth).

The use of another's mark with knowledge of its use "has no tendency to show bad faith" and does not preclude a fair use of that mark. *Car-Freshener Corp. v. S.C. Johnson & Son, Inc.*, 70 F.3d 267, 270 (2nd Cir. 1995); Restatement at § 28, comment d. The fact that Smith knew of the ENTREPRENEUR mark before he adopted his own marks is not, therefore, evidence of his bad faith. As the *Canal Co.* court recognized, even if a consumer is mistaken, it does not follow that the mistake was caused by deceit—the mistake could simply be due to two merchants using one word to truthfully describe each of their goods.

Smith knew when he renamed his company that over 230 marks existed that used some form of "entrepreneur." (ER 249-64; 695-96.) He also knew the word

formed part of at least 1,000 registered top-level domain names. (ER 185; 695-96.)<sup>10</sup> Because Smith's business was devoted to providing entrepreneurs with public relations services, the conjunction of "entrepreneur" and "PR" was reasonable and would have been highly effective even if EMI had never adopted its ENTREPRENEUR mark. One factor in determining good faith is whether there are adequate alternatives to use of the mark. 279 F.3d at 1143 (noting that widespread use of a word may be confirmation of the need to use the word). Here, the large number of third-party users is evidence that the word "entrepreneur" has a specific meaning not readily, or accurately, conveyed by any other and reveals the difficulty of avoiding its use. *Id.* at 1144.

Smith never hid from EMI that he changed his company name and, in fact, made the change known to EMI's management. (ER 900-03.) EMI, furthermore, featured Smith and EntrepreneurPR in its magazine. (ER 247.) His open relationship with EMI is the epitome of good faith. The small amount of biased testimony regarding actual confusion simply does not establish that Smith intended to deceive those consumers. The even smaller amount of evidence purporting to establish Smith's bad intent fails to appreciate that Smith valued *Entrepreneur* as a media platform for his clients and he did attempt, and occasionally succeeded, in promoting his clients in that magazine. (ER 242-45.)

### **3. Smith Used the Word "Entrepreneur" to Describe his Services**

This Court has noted that the word "entrepreneur" is a "common, descriptive word." 279 F.3d at n.9. This Court also concluded that when the word "entrepreneur" is used on a magazine devoted to entrepreneurs, the word

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<sup>10</sup> Although third-party use of a mark is no defense to infringement, citations to such use can establish that a portion of the mark common to all has a normally understood and well-known meaning. *American Hospital Supply Corp. v. Air Products and Chemicals, Inc.*, 194 U.S.P.Q. 340, 343 (TTAB 1977).

describes both the subject matter and the intended audience. *Id.* at 1142. This Court has also noted that there is no synonym for the word and that Smith would have lost both nuance and economy of language if he used another. *Id.* at 1143.

Because Smith's public relations business targeted entrepreneurs as clients, it requires no effort to conclude that his use of the word "entrepreneur" in his marks "EntrepreneurPR" and "entrepreneurpr.com" was reasonable, and perhaps necessary, to describe his services to entrepreneurs. EMI readily appreciates this necessity. *Entrepreneur* editor Lesonsky wrote an editorial arguing that the word "entrepreneur" was the only way to describe a person "who grows his or her own business, assuming the risk for the sake of a profit." (ER 286.)

In sum, the District Court was required to consider Smith's fair uses of the word "entrepreneur" and abused its discretion by not doing so. Smith has established all the elements of the defense and requests this Court find that Smith's use of the marks "EntrepreneurPR" and "entrepreneurpr.com" were fair and, therefore, did not infringe EMI's ENTREPRENEUR mark.

## **II. The District Court Erred By Holding That Smith's Publication, Business Name, And Domain Name Cause A Likelihood Of Confusion With EMI's ENTREPRENEUR Mark**

Normally this Court would review for clear error the District Court's finding of a likelihood of confusion. *Levi Strauss & Co. v. Blue Bell, Inc.*, 778 F.2d 1352, 1355 (9th Cir. 1985). Here, however, the District Court was bound by this Court's previous rulings of law and analytical directives regarding the *Sleekcraft* factors that underlie that analysis. The District Court's findings therefore, should be reviewed for an abuse of discretion.

The law of the case doctrine provides that "a court is generally precluded from reconsidering an issue that has already been decided by the same court, or a



higher court in the identical case."<sup>11</sup> *U.S. v. Alexander* at 876. "The rule is that the mandate of an appeals court precludes the district court on remand from reconsidering matters which were either expressly or implicitly disposed of upon appeal." *U.S. v. Miller*, 822 F.2d 828, 832 (9th Cir. 1987). In order for the doctrine to apply, the issue in question must have been "decided explicitly or by necessary implication in [the] previous disposition." *Milgard Tempering, Inc. v. Selas Corp. of America*, 902 F.2d 703, 715 (9th Cir. 1990) (quoting *Liberty Mutual Ins. Co. v. E.E.O.C.*, 691 F.2d 438, 441 (9th Cir. 1982)). A court's "[f]ailure to apply the doctrine of the law of the case absent one of the requisite conditions constitutes an abuse of discretion." *Id*

The prior decision must be followed unless: "(1) the decision is clearly erroneous and its enforcement would work a manifest injustice, (2) intervening controlling authority makes reconsideration appropriate, or (3) substantially different evidence was adduced at a subsequent trial." *Hegler v. Borg*, 50 F.3d 1472, 1475 (9th Cir. 1995), *cert. denied*, 516 U.S. 1029, 116 S. Ct. 675, 133 L. Ed. 2d 524 (1995); see *Leslie Salt Co. v. United States*, 55 F.3d 1388, 1393 (9th Cir. 1995); *Merritt v. Mackey*, 932 F.2d 1317, 1320 (9th Cir. 1991); *Kimball v. Callahan*, 590 F.2d 768, 771-72 (9th Cir. 1979).

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<sup>11</sup> The doctrine is grounded in the need for litigation to come to an end. "An appellate court cannot efficiently perform its duty to provide expeditious justice to all 'if a question once considered and decided by it were to be litigated anew in the same case upon any and every subsequent appeal.'" *Kimball v. Callahan*, 590 F.2d 768, 771 (9th Cir. 1979), quoting *Lehrman v. Gulf Oil Corporation*, 500 F.2d 659, 662-63 (5th Cir. 1974) (internal citations omitted).

**A. The Law of the Case Barred Retrial of EMI's Infringement Claim with Respect to *Entrepreneur Illustrated***

In Smith's previous appeal, this Court disposed of EMI's claim of trademark infringement as to *Entrepreneur Illustrated* and remanded EMI's claims as to EntrepreneurPR and entrepreneurpr.com.<sup>12</sup>

A disposition by summary judgment is a decision on the merits, and is as final and conclusive as a judgment after trial. *Kamilche Co. v. United States*, 809 F.Supp. 763, 767 (N.D.Cal. 1992) rev'd on other grounds, 53 F.3d 1059 (9th Cir.1995). See also, *Security People, Inc. v. Medeco Security Locks, Inc.*, 59 F.Supp.2d 1040, 1045 (N.D.Cal. 1999). Smith's previous appeal, therefore, was from a final judgment. This Court's affirmation of that judgment as to *Entrepreneur Illustrated* was a final and binding determination, and one that the District Court was not at liberty to retry. If not barred from reconsideration by the law of the case doctrine, reconsideration was barred by the principle of res judicata. *Id.*

**B. The District Court Departed from the Law of the Case with Respect to EntrepreneurPR and entrepreneurpr.com and Failed to Properly Apply the *Sleekcraft* Factors**

As noted, the District Court abused its discretion by retrying the issue of infringement with respect to *Entrepreneur Illustrated*. With respect to the remanded issues, this Court left the door open for EMI to "prove that its mark is stronger than it currently appears." 279 F.3d at 1144. This Court credited EMI's mark with only weak, descriptive strength because on the prior record EMI had demonstrated no more. *Id.*

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<sup>12</sup> "We therefore affirm the district court's grant of summary judgment to EMI on this issue" 279 F.3d at 1153 (referring to infringement caused by *Entrepreneur Illustrated*); "We therefore reverse the grant of summary judgment and remand except as to that issue [the printed publication]." *Id.*

The record changed little at trial. Below, we shall review the new evidence presented by EMI and demonstrate that neither its quantity nor quality is sufficient to uphold the District Court's vast departures from the *Sleekcraft* factor conclusions and analysis previously made by this Court.

**1. Strength of ENTREPRENEUR**

This Court held, as a matter of law, that EMI's mark is inherently weak and that it occupied a "crowded field" of marks. 279 F.3d at 1141, 1144. This Court further observed that an inherently weak mark may be strengthened by such factors as extensive advertising, length of exclusive use, and public recognition. *Id.* At trial, EMI failed to meet this challenge.

**a. Extensive Advertising**

As this Court has previously noted, it matters little the amount of money a trademark owner spends. "The real question is what did [the owner] get for their money and efforts?" *Anti-Monopoly, Inc. v. General Mills Fun Group*, 684 F.2d 1316, 1323 (9th Cir. 1982).

Lesonsky was one of four declarants offered in support of EMI's summary judgment motion. (ER 51-52.) At trial, her testimony added very little to the earlier declaration. (ER 728-39, 775-806, 904-19.) She was the only witness presented by EMI on the issue of extensive advertising. (ER 904-06.) Lesonsky testified that EMI spent "roughly \$5 million" over the past three years on advertising for *Entrepreneur*. *Id.* This advertising included postcard-type mailings sent out to all present and past subscribers of the magazine, three times per year. (ER 905, 920.) She offered no other allocation of advertising dollars or activities, and she had no knowledge at all regarding EMI's advertising related to its websites. (ER 906-07.) This minimal additional evidence was insufficient to instruct the District Court as to the "extensiveness" of EMI's advertising.

A postcard-type mailing to existing and past subscribers does nothing to expand the public recognition of ENTREPRENEUR beyond that already achieved by circulation of the magazine itself. (ER 920.) “Roughly \$5 million” over three years, without more, is not, therefore, instructive as to this factor. *HMH Publishing Co., Inc. v. Brincat*, 504 F.2d 713, 719 (9th Cir. 1974) (large advertising expenditures alone are insufficient). Moreover, evidence of EMI’s circulation and its attendant demographics was already before this Court on EMI’s motion for summary judgment. (ER 51-52.)

EMI offered similarly sketchy evidence of advertising applicable to its website. Charles Fuller testified that EMI’s web marketing expenditures were “roughly about \$2,000,000,” which included bartering and internal activities. (ER 921-23.) No allocation was given and he did not specify whether the advertising was to promote entrepreneur.com, *Entrepreneur*, or some other EMI enterprise. *Id.*

#### **b. Length of Exclusive Use**

EMI adduced no new evidence at trial on the exclusivity of its use. At trial, Smith presented evidence negating exclusivity, much of it previously presented in opposition to the summary judgment motion and noted in this Court’s prior opinion. (ER 806-08, 924-25, 812-33.); 279 F.3d at 1143. The extensive third-party use of ENTREPRENEUR as a magazine title, registered trademark, and domain name were noted by this Court in its prior opinion. 279 F.3d at 1143.<sup>13</sup> This Court further noted the extensive use of the word as a common noun for which there is no ready synonym. *Id.* at 1143, n. 8.

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<sup>13</sup> Smith’s expert identified six other magazines, 233 trade name listings and 1043 Internet domain names that contained the word “entrepreneur.” (ER 185-86, 693.)

**c. Public Recognition**

EMI introduced no new evidence of public recognition. It offered no outside evidence or survey evidence of any kind—which Smith’s counsel emphasized and the District Court accepted as established. (ER 838-39.)

**2. Similarity of the Marks**

No new evidence was presented as to the color, font-size, or “look and feel” of the publications. Although new copies of EMI’s magazine covers and the actual magazine were presented, there is nothing to suggest that the marks are any more similar than they were on summary judgment. (ER 926-44.). Interestingly, Lesonsky's testimony supports Smith's contention that people would not associate two unrelated businesses using the word "entrepreneur" in their trade name, even if there were merely minor distinctions in the font style employed. (ER 230, 789-92, 795-96.) This is true even when the name is seen right next to EMI's mark. (*Id.*)

Minimal testimony by EMI’s psycholinguist, Virginia Mann, was given to supplement her earlier report. (ER 31-38.) She opined at trial that EntrepreneurPR and *Entrepreneur Illustrated* could be confused with *Entrepreneur*, but only if people were to disregard the “PR” element and view that element as unimportant. (ER 32-37, 926-27.) No survey evidence, however, was offered to support what people would then associate with the remaining word “Entrepreneur.” (ER 947-48, 838-39.) Absent an association with EMI’s *Entrepreneur* magazine, no harm is caused even if one were to assume Mann was correct. Mann’s testimony actually negated similarity with respect to the parties’ websites. Her research showed that, in the context of search engines, the word entrepreneur is not closely related to entrepreneurpr.com, and that she, in fact, did not find “entrepreneurpr.com” when using the search term “entrepreneur.” (ER 949.)

### **3. Proximity of Goods**

EMI did nothing to enhance the earlier record on this issue. Only two new exhibits were offered—an EMI brochure describing its products and services (ER 740-55) and a web page screen shot showing a link to PRNewswire on EMI's website (ER 762-63). EMI's own witness, Lesonsky, readily distinguished the parties' products: *Entrepreneur* magazine featuring "editorial" content that was not for sale, and Smith's publication offering just the opposite. (ER 778-79.)

Although EMI's corporate brochure contains a list of all the products and services EMI offers, it does not list public relations among them. (ER 740-55.) With respect to entrepreneur.com's website link to PRNewswire, the testimony by EMI's web specialist did not and could not support a conclusion that Smith's public relations services were related to anything offered by EMI through PRNewswire. (ER 756-63.) The specialist's knowledge was limited to the mechanical aspects of the website link. He had no knowledge of the actual services provided or the relationship between EMI and PRNewswire. *Id.*

### **4. Smith's Intent**

Apart from what can be taken as evidence of "intent" from the testimony of Smith's former customers—discussed under "actual confusion" below—EMI presented no additional evidence on Smith's alleged intent to confuse his consumers. There was additional evidence presented, however, supporting Smith on this issue. (ER 878-86.)

Smith introduced testimony from Von Allmen, a corporate identity consultant, showing that Von Allmen performed several different trademark and business name searches to assist with Smith's name change. (ER 380-97, 950-58, 717-27, 140.) Moreover, the testimony from Curtis, an EMI witness who the District Court regarded as credible, supported Smith's position that Smith had no intent to confuse consumers. (ER 878-86.) Further evidence was provided by the

article in EMI's own magazine, *Entrepreneur's Small Business Start-Ups*, that positively featured Smith, EntrepreneurPR, and *Entrepreneur Illustrated*. (ER 247, 804-05.) To show Smith's intent to confuse, EMI had to infer it from the evidence of actual confusion it offered, specifically, a number of misdirected checks.

This Court has held, however, that in the context of high business volume, several misdirected letters and checks are "insignificant" instances of actual confusion: "[T]he instances of confusion, at best, were thin, and at worst, were trivial . . . . The court acted properly in finding that any actual confusion was de minimus." *Nutri/System, Inc. v. Con-Stan Industries, Inc.*, 809 F.2d 601, 606 (9th Cir. 1987); see also *Alchemy II, Inc. v. Yes! Entertainment Corp.*, 844 F.Supp. 560 (C.D.Cal. 1994) (15 misdirected phone calls held *de minimus*); *Homeowners Group, Inc. v. Home Marketing Specialists, Inc.*, 931 F.2d 1100 (6th Cir. 1991) ("where the parties . . . have advertised extensively, isolated instances of actual confusion are not conclusive or entitled to great weight . . . .")

As these cases demonstrate, even if some small measure of actual confusion was shown, the District Court could not rely on isolated and questionable instances to conclude so forcefully that Smith intended to confuse his consumers. Furthermore, it does not logically follow that the de minimus amount of actual confusion shown by EMI, if any, means that Smith intended for that confusion to occur.

## **5. Actual Confusion**

Five additional witnesses testified at trial on the issue of actual confusion. (ER 848-93.) Each of the five were disgruntled former clients of Smith's, and each had legal battles or contentious payment disputes with Smith. (ER 852, 863, 878-86, 892-93.) Their professed confusion was attributed to either the visual

similarity of the publications, or purely extraneous matters. (ER 848-93.) Thus, the quality of this additional evidence is dubious, as is its weight, since the evidence of confusion related to the parties' publications, and not to Smith's business name or his website. *Id.* Stated simply, the evidence at trial did not materially differ in weight, scope or quality compared to that presented on summary judgment.

**a. Patty Segovia**

Segovia was a disgruntled Smith client and an obviously hostile witness. She acknowledged having a legal battle with Smith and an unpaid balance of \$5,000 owed to with him. (ER 868-70.) She claimed she hired Smith because she was told his company could get her into *Entrepreneur* magazine. (ER 866.) When asked specifically what magazine she thought she would get into, however, she answered: "*Entrepreneur Illustrated*." (ER 867.) Several of Segovia's checks were offered to support her confusion about Smith's affiliation with EMI, yet each check named "EntrepreneurPR" as the payee. (ER 959.)

Both Segovia and the trial judge failed to reconcile Segovia's professed confusion with an e-mail she was sent informing her that EntrepreneurPR could not use the photograph she submitted because it came from EMI's magazine and she did not have a copyright release from EMI. (ER 874-75, 960.) Smith's e-mail provided her with a phone number to contact EMI for the release. (ER 872-77, 960.)

Segovia's professed confusion, such as it was, was attributed to the cover of *Entrepreneur Illustrated*. (ER 867.) Thus, she added nothing to the issue of actual confusion as to EntrepreneurPR or entrepreneurpr.com apart from what was already presented on summary judgment. In short, Segovia's testimony was clearly not representative of confusion on the part of a reasonable consumer.



**b. Julie Mucha**

Mucha's testimony mirrored Segovia's. Mucha also had a payment dispute and legal battle with Smith. (ER 852.) Her checks were made out, correctly, to EntrepreneurPR. (ER 855.) She also took note of the name EntrepreneurPR on Smith's contract. (ER 849.)

Her basis of confusion was a conversational reference made by one of Smith's employees, Clare Emerson, referring to Smith's company and publication as "Entrepreneur." (ER 850-51.) Mucha's confusion, if any, was therefore due simply as a result of a miscommunication, not to any confusion caused by her visual or auditory perception of any of Smith's marks.

**c. Cynthia House/Neal Andrews**

House and Andrews followed the same pattern—both had legal battles and payment disputes with Smith. (ER 859, 893.)

House's alleged confusion between Smith's marks and ENTREPRENEUR was based on a purely collateral matter, i.e., her membership in the Young Entrepreneurs Organization—an organization she understood to be sponsored by or affiliated with *Entrepreneur* magazine. (ER 858.) House assumed EntrepreneurPR was associated with *Entrepreneur* "because they have the same name." (ER 859.) House is not representative of a reasonable consumer due to her hostility toward Smith and because her perceived affiliation was based on her experience with the Young Entrepreneurs Organization, not on her experience with EntrepreneurPR. (*Id.*; ER 863.)

Andrews' perceived affiliation was based on his viewing of an *Entrepreneur* magazine shown to him by Smith in their first meeting along with Smith's assurance that he could get Andrews "in a lot of different publications similar to [it]." (ER 889.) This assurance of access to "a lot of different publications" is consistent with providing general public relations services and not an endorsement

or perception of affiliation with the one publication he happened to show Andrews.

Andrews also testified that he based his perceived affiliation on Smith's use of text on his letterhead that Andrews claimed was visually similar to text used by *Entrepreneur*. (ER 892.) Notably, however, Andrews was not confused about Smith's affiliation based on his review of entrepreneurpr.com. (ER 888.)

**d. Jim Curtis**

Curtis' testimony actually supported Smith on both the issue of actual confusion and intent. (ER 878-86.) Curtis testified that he initially presumed an affiliation between Smith and EMI because of his familiarity with *Entrepreneur* and the logo used on *Entrepreneur Illustrated*. (ER 879.) However, Curtis testified that when he met and talked with Smith it was "instantaneously clear" that "they weren't connected" (ER 885) and that when he asked Smith about his affiliation he "was told very quickly" that Smith was not part of EMI. (ER 885-86) Curtis hired Smith anyway. Like Segovia, whatever actual confusion Curtis experienced was caused solely by the appearances of the parties' publication covers, a condition this Court remedied in its prior opinion, and not on Smith's use of EntrepreneurPR or entrepreneurpr.com.

**6. Overlap of Marketing Channels**

This Court previously observed that the parties "do not compete for subscribers, newsstand purchasers, or advertisers because *Entrepreneur Illustrated* is not for sale and does not feature paid advertisements." 279 F.3d at 1152. This Court considered virtually the same evidence as was presented at trial on this issue. After doing so, this Court concluded that, "because of EMI's yearly paid circulation of approximately 540,000 copies, this evidence of overlap with regard to free distribution appears de minimus." 279 F.3d at 1152 & n. 15. Nothing in

the instant record contradicts this holding, and, as noted above with respect to “proximity of goods,” Lesonsky’s testimony actually fortifies this conclusion. (ER 778-79, 740-55.) “Substantially different” evidence was required to depart from this Court’s holding that “they do not overlap to any significant degree.” 279 F.3d at 1151. The District Court’s conclusion that “the parties’ marketing channels largely overlap” is simply not supportable. *Id.*

#### **7. Expansion of Product Lines**

This Court previously held that: “because . . . the district court erred in finding that the parties’ marketing channels overlapped as a matter of law and EMI presented *no* evidence of the parties’ intent to expand into each other’s product lines, the district court should have weighed this factor against finding likely confusion.” 279 F.3d at 1152 (emphasis in original).

No evidence, let alone “substantially different” evidence, was presented at trial as to whether the parties intended to expand into each other’s product lines. EMI may cite to the evidence of entrepreneur.com’s link to the PRNewswire website. This evidence, however, was not explored and there is no evidence that EMI performed public relations services. The District Court nonetheless reiterated its earlier finding that “the parties are already within each other’s product lines” and did not address this factor in its findings of fact and conclusions of law. By failing to do follow this Court’s previously ruling, the District Court abused its discretion.

#### **8. Degree of Consumer Care**

This Court previously held that the relevant consumers were “moderately sophisticated” and that this factor “weighs against finding a likelihood of confusion.” *Id.* There is no indication the District Court considered this factor at all at trial because the findings of fact and conclusions of law are completely silent

on this issue. This factor, therefore, was not given the negative weight this Court directed.

**C. The District Court's *Sleekcraft* Analysis was Perfunctory and Driven by Only One of the Eight Factors: Intent**

In its prior opinion, this Court cautioned that the *Sleekcraft* factors are "a guide to decision-making intended to channel the analytical process but not dictate any result." 279 F.3d at 1141. Related was this Court's caveat that the *Sleekcraft* factors are to be measured as a whole, with consideration given to each factor. 279 F.3d at 1141. In the instant case, it is evident the District Court's analysis of the *Sleekcraft* factors was mechanical, if not perfunctory. The trial judge assigned singularly dispositive weight to the "intent" factor. It is apparent the trial judge's conclusions about Smith's intent dictated both her *Sleekcraft* analysis and her evidentiary outlook. Evidence negating Smith's intent was dismissed summarily from the court's analysis, even when it came from witnesses she found to be credible. (ER 687.)<sup>14</sup> This failure to consider the factors as a whole, coupled with this Court's edict to "exercise caution in extending the scope of protection" to the ENTREPRENEUR mark, constitutes an abuse of discretion.

**III. The Judgment On EMI's Unfair Competition Claim Must Be Reversed Because It Was Premised On the Holding That Smith Committed Trademark Infringement; Moreover, Money Damages Are Not Available On That Claim As A Matter Of Law**

The judgment against Smith on EMI's unfair competition claim was explicitly premised on the District Court's holding that Smith committed

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<sup>14</sup> For example, the District Court found EMI's witnesses to be credible (ER 683), yet it ignored testimony from such witnesses negating Smith's intent. See, e.g., discussion of Curtis testimony, supra, § II.B. The trial judge also ignored Smith's publicly-filed trademark applications (ER 815-32), evidence strongly negating Smith's intent.

trademark infringement (ER 687) and the “substantial congruence” of those claims. Thus, the judgment on the unfair competition claim must be reversed for the same reasons we argue for reversal of the trademark infringement claims. Additionally, the State law unfair competition claim cannot support an award of money damages against Smith as a matter of law.

Under two recent California Supreme Court holdings,<sup>15</sup> money damages are not an available remedy for claims based upon California’s Unfair Competition Law (“UCL”), California Business and Professions Code sections 17200, et seq. Damages cannot be recovered in an action under the UCL. *Id.*, citing *Bank of the West v. Superior Court*, 2 Cal. 4th 1254, 1266 (1992). Instead, “restitution is the only monetary remedy expressly authorized by [the UCL].” *Id.* at 1146. In order to obtain the statutory remedy of restitution, EMI must prove that Smith obtained money or property directly from EMI. It cannot do so.

The California Supreme Court held in *Korea Supply* that “restitution [under the UCL] is limited to restoring money or property to direct victims of an unfair practice.” *Id.* at 1151. “[T]he notion of restoring something to a victim of unfair competition includes two separate components. The offending party must have obtained something to which it was not entitled and the victim must have given up something which he or she was entitled to keep.” *Day v. AT&T Corp.*, 63 Cal. App. 4th 325, 340 (1998). The instant case is analogous to *Korea Supply*. “Any award that plaintiff would recover from defendants would not be restitutionary as it would not replace any money or property that defendants took directly from plaintiff.” *Korea Supply*, 29 Cal. 4th at 1149.

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<sup>15</sup> *Korea Supply v. Lockheed Martin Corp.*, 29 Cal. 4th 1134 (2003) and *Kraus v. Trinity Management Services, Inc.*, 23 Cal. 4th 116 (2000).

#### **IV. The District Court Abused Its Discretion In Its Award Of Smith's Profits**

The District Court abused its discretion in awarding \$689,996 in "profits" to EMI by failing to apply the proper method for calculating "profits" under the Lanham Act. First, the District Court allowed EMI to admit evidence beyond Smith's sales in direct contravention at 15 U.S.C. § 1117(a). Second, the award was punitive and not equitable as required by that section. Third, there was no allocation of costs between Lanham Act and non-Lanham Act claims, or among the three marks upon which EMI's infringement claim was based. Fourth, the District Court failed to consider evidence of Smith's innocent intent, as required by *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 982 F.2d 1400, 1405 (9th Cir. 1993).

##### **A. The District Court Failed to Perform an Accounting and Awarded Smith's Revenues, not Profits, to EMI**

15 U.S.C. Section 1117(a) defines the method to calculate trademark infringement damages.

*The court shall assess* (emphasis added) the profits and damages or cause the same to assessed under its direction. In assessing profits the plaintiff shall be required to prove defendants sales *only* (emphasis added); the defendant must prove all elements of cost or deduction claimed.

It is clear from this language that a court must consider evidence presented by the defendant that shows costs or deductions. If dissatisfied with defendant's proof, then the court must direct the assessment of costs to arrive at the applicable profits. See *A&M Records, Inc. v. Abdallah*, 948 F.Supp. 1449, 1459 (C.D.Cal 1996) (emphasis added) (in the absence of defendant's expenses, court properly estimated them).

Here, the District Court ignored Smith's direct evidence of costs in favor of opinion testimony of EMI's expert, Robert Knudsen. Knudsen prepared a report

which was provided at summary judgement. (ER 39-49.) He read portions of this report at trial which included Smith's actual revenues, estimated sales, estimated costs, and prejudgment interest. (ER 961-75.) Knudsen then arrived at a damages estimate of \$669,656. (ER 974.)

As required by statute, Smith presented evidence of offsetting costs in the form of income and balance sheets. (ER 530-35.) Smith also presented detailed evidence of his business check register. (ER 443-528, 976-1025.) These documents were admitted in evidence and should have been considered. Clearly, they were not. The Court simply accepted EMI's opinion testimony, fixing damages of \$669,656. (ER 688.) In doing so, it failed to direct the assessment of profits as required by law.

**B. The District Court Abused its Discretion by Awarding Damages That Were Clearly Punitive in Nature**

An award of damages under the Lanham Act is equitable in nature. A plaintiff may recover damages, but expressly "subject to the principles of equity." 15 U.S.C. § 1117(a). Likewise, damages are to be compensatory and not punitive in nature ("such a sum in either of the above circumstances shall constitute compensation and not a penalty"). *Id.*

At trial, EMI showed neither lost subscribers nor lost revenue. The only actual damage EMI claimed was \$39,000 for anticipated corrective advertising (ER 43.) Instead of its damages, EMI elected to pursue Smith's profits under section 1117(a)(1). Smith's profits, however, were modest. Smith began ICON Publications in 1997 without the assistance of outside investors. (ER 140.) From October 1997 to December 1999, EntrepreneurPR had a negative net income of \$1,581.30. (ER 532.) During the same period the total salary paid to employees was \$128,597.68. (ER 531.) Smith's company, like most entrepreneurial start-ups, operated on a modest budget. The record on summary judgment

demonstrates that the size of the earlier award of \$337,280.00—although eventually reversed—led to Smith's bankruptcy. *In re Scott Smith*, Case No 01 25334 B7, US Bankruptcy Court, Eastern District of California, Sacramento Division, 2000.

This Court's reversal of summary judgment came with cautionary language: "If appropriate, the district court may consider this issue [damages] anew after a trial on its merits." 279 F.3d at 1153. The subsequent award of \$669,656 at trial was obviously not based on equitable considerations and appears punitive in nature. It is roughly twice the amount awarded at summary judgment and nearly seventeen times the theoretical cost of corrective advertising. Also, an award for corrective advertising based on estimates is inappropriate. "To justify damages to pay for corrective advertising a plaintiff must show that the confusion caused by the defendant's mark injured the plaintiff and that 'repair' of the old trademark, rather than the adoption of a new one, is the least expensive way to proceed." *Zazu Designs v. L' Oreal S.A.*, 979 F. 2d 499, 506 (7th Cir. 1992).

The District Court correctly stated the law regarding damages at summary judgment. "Plaintiff is not . . . entitled to a windfall." (ER 426.) Unfortunately, it failed to apply this law at trial. This Court should direct the damage award be vacated.

**C. The District Court Abused It's Discretion by Failing to Apportion Costs Between Lanham Act and Non-Lanham Act Claims; Likewise, the District Court Failed to Allocate Costs Among Smith's Three Marks**

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The rule is clear that the court must apportion costs between Lanham Act and non-Lanham Act claims. *Cairns v. Franklin Mint Co.*, 115 F.Supp.2d 1185, 1188 (C.D.Cal 2000).



The District Court failed to direct an allocation of costs between EMI's Lanham Act and State law Unfair Competition claims. Likewise, there was no attempt by the District Court or EMI to allocate costs among the marks "EntrepreneurPR," "entrepreneurpr.com" and "Entrepreneur Illustrated." In this case, allocation is especially important in light of this Court's holding that Smith could fairly use the term "Entrepreneur Illustrated."

The plenary nature of the District Court's damage award is further indicative that it was not based on equitable considerations and, moreover, that it did not follow the standards articulated by *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 982 F.2d 1400, 1405 (9th Cir. 1993). In *Lindy Pen*, this Court held that the standard for awarding damages based on an accounting of profits applies "only in those cases where the infringement is willfully calculated to exploit the advantage of an established mark." *Id.* at 1405. The record at trial does not meet this standard. Smith commissioned a trademark search and hired a company-identify firm to assist him with selection of a new name. (ER 140-42.) Moreover, Smith presented ample evidence of the common use of the word "entrepreneur." (ER 267-275.); See also, I(C)(2) supra that discusses Smith's good faith use of his marks.

The standard for damages based on an accounting of profits is very high. Even if some evidence of willfulness is found persuasive, that finding, by itself, is typically insufficient to justify an award of damages. "[W]illful infringement may support an award of profits to the plaintiff, but does not require one." *Lindy Pen*, 982 F.2d at 1406 n.4. In this case, in light of this Court's holding that Smith could fairly use "Entrepreneur Illustrated," that the mark ENTREPRENEUR is a weak descriptive mark, and that EMI itself promoted Smith, EntrepreneurPR, and *Entrepreneur Illustrated* in one of its magazines, this Court should conclude equity requires that no damages be awarded.

**D. The District Court Failed to Consider This Court's Directive on the Issue of Damages**

It is important to emphasize that this Court's prior decision not only reversed the District Court on the amount of damages, but the District Court's decision to grant damages at all. 279 F.3d at 1153. In *Herrington v. County of Sonoma*, 12 F.3d 901 (9th Cir. 1993), this Court's rejection of an \$810,000 damage award as excessive was affirmed as an upper limit on the damages that could be awarded on remand, based on the law of the case doctrine. *Id.* at 905. Thus, at a minimum, the District Court should have considered this Court's reversal of the prior \$337,280 damage award as an upper limit directive.

**V. The District Court Abused Its Discretion By Awarding Attorneys' Fees**

The District Court's award of attorneys' fees is reviewed for an abuse of discretion. *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1151 (9th Cir. 2002). Attorneys' fees may be awarded in "exceptional" cases of trademark infringement. 15 U.S.C. § 1117(a). Attorneys' fees, if appropriate, are calculated according to the factors articulated by *Kerr v. Screen Extras Guild, Inc.*, 526 F.2d 67, 69-70 (9th Cir. 1975). *Intel Corp. v. Terabyte Int'l Inc.*, 6 F.3d 614 (9<sup>th</sup> Cir. 1993).

The Lanham Act does not define the term "exceptional cases." In the Ninth Circuit, this term has generally been reserved for the most egregious infringers. Examples include: *Playboy Enterprises, Inc. v. Baccarat Clothing Co., Inc.*, 692 F.2d 1272 (9th Cir. 1982) (counterfeiting a well-known logo on jeans); *A&M Records*, 948 F.Supp. 1449 (C.D.Cal. 1996) (counterfeit cassettes of well-known musical artists); *Lindy Pen Co, Inc. v. Bic Pen Co.*, 982 F.2d 1400, (9th Cir. 1984) (manufacturer infringed mark after agreement not to use); *Polo Fashions, Inc. v Dick Bruhn, Inc.*, 793 F.2d 1132, 1133 (9th Cir. 1986) (seller of counterfeit Polo Shirts continues to sell after notice). The consistent theme is that attorneys' fees are awarded when the mark is strong and the defendant's conduct is, or is

tantamount to, counterfeiting. Clearly, Smith is not a counterfeiter because he did not use EMI's ENTREPRENEUR mark. Although EMI asserted a claim of counterfeiting, the claim was rejected at summary judgment and was subsequently dropped by EMI before trial. (ER 10, 11, 765.)

The facts also establish that Smith did not willfully infringe EMI's ENTREPRENEUR mark. Smith had a valid business motive to change the name of his company from ICON Publications to EntrepreneurPR. (ER 1026-30, 1032-35, 1037, 1039-40.) He enlisted help from a trademark search firm to select a new business name and relied on that advice. (ER 691-94.) The results of the search revealed the word "entrepreneur" was widely used. *Id.* After Smith adopted the mark, he made a good faith effort to clear the mark with a staff member of EMI. (ER 900-02.) For these reasons, as well as the reasons given in I(C)(2) and IV(C) *infra*, this Court should find that Smith did not willfully infringe the ENTREPRENEUR mark.

If an award of attorneys' fees is appropriate, the amount must be recalculated. The first requirement under the *Kerr* factors is that the court must set the lodestar figure by multiplying the number of hours reasonably expended by the reasonable hourly rate. (ER 647,48.) The clear error here is that the District Court included hours for all phases of the case. However, during the first phase—from complaint to summary judgment—the District Court concluded EMI was not entitled to attorneys' fees. (ER 428.) During the second phase—from summary judgment to Smith's first appeal—the District Court did not award attorneys' fees. 279 F.3d. Therefore, the proper number of hours in the lodestar calculation should be only those during the final phase of this case—from trial through this appeal.

The District Court was required to make specific findings as to the rate and hours it determined reasonable. *Frank Music Corp. v Metro-Goldwyn Mayer*,

*Inc.*, 886 F.2d 1545, 1557 (9th Cir. 1989). The District Court, however, uncritically accepted the representations made by EMI's counsel regarding the time expended on the case. This was improper.<sup>16</sup> *Sealy, Inc. v Easy Living, Inc.*, 743 F.2d 1378, 1385 (9<sup>th</sup> Cir. 1984).

The District Court also failed to recognize that this Court reversed the grant of summary judgment for two of Smith's three allegedly infringing marks and eviscerated its injunction as to the third. This Court's previous decision was a clear success for Smith that was ignored by the District Court on remand. The District Court, therefore, improperly applied the most critical of the *Kerr* factors—"the degree of success achieved" in the litigation.

Even if this Court finds that Smith infringed EMI's ENTREPRENEUR mark, attorneys' fees should not be awarded since this case is not exceptional. And if attorneys' fees are appropriate, they need to be adjusted to comply with this Court's precedent.

### CONCLUSION

The District Court's failure to acknowledge this Court's mandate with respect to the printed publication resulted in an impermissible trial of issues that were conclusively resolved in the prior appeal. The lower court's failure to adhere to the law of the case infected the entire proceeding on remand, especially the trial court's assessment of likely confusion and its perfunctory analysis of the underlying *Sleekcraft* factors.

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<sup>16</sup> After trial, the Court was presented with evidence of attorney's fees and costs. This amount included \$596,244.00 in attorneys' fees for the law firm of Latham & Watkins, \$40,251 in attorneys' fees for the law firm of Bissell & Bissell, \$44,400.00 in paralegal fees, and \$39,267.46 in costs. (ER 588-606.) The total amount requested was \$720,162.46. Shortly thereafter, the District Court awarded \$720,162.46 in attorneys' fees and costs. (ER 648.)

Smith's fair use of "Entrepreneur Illustrated" was clearly envisioned by this Court, and explicitly allowed by the injunctive remedy it previously fashioned. As to issues that were remanded for trial, this Court prescribed clear and explicit analytical limitations that were not followed. The trial court's disregard for them is apparent, as is the unfairness of the result.

For the reasons we offer above, the judgment should be reversed and vacated, with instructions that the lower court enter a judgment consistent with this Court's prior opinion. The award of profits and attorneys' fees should be reversed with instructions that the District Court deny that relief altogether or, alternatively, limit the award consistent with the apportionments required by law.

DATED: December 8, 2003.

Respectfully submitted,

McDONOUGH HOLLAND & ALLEN PC  
Attorneys at Law

By



Glenn W. Peterson

Daniel N. Ballard

*Attorneys for Defendant-Appellant*

*Scott Smith dba EntrepreneurPR*

**CERTIFICATE OF COMPLIANCE**  
**Fed. R. App. P. 32(a)(7)(C)(i)**  
**Ninth Circuit Rule 32-1 For Case No. 03-56431**

1. This Brief complies with the type-volume limitations of Federal Rules of Appellate Procedure 32(a)(7)(B) because this Brief contains 12,364 words, excluding the parts of the brief exempted by Federal Rules of Appellate Procedure 32(a)(7)(B)(iii).

2. This Brief complies with the typeface requirements of Federal Rules of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rules of Appellate Procedure 32(a)(6) because this Brief has been prepared in a proportionally-spaced typeface using Microsoft Word 98 in 14 point Times New Roman.

DATED: December 8, 2003.

Respectfully submitted,

McDONOUGH HOLLAND & ALLEN PC  
Attorneys at Law

By



Glenn W. Peterson

*Attorneys for Defendant-Appellant*

*Scott Smith dba EntrepreneurPR*