

UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

ENTREPRENEUR MEDIA, INC., )  
a California corporation, ) **Case No.03-56431**  
)  
Plaintiff-Appellee, )  
) (DC No. CV-98-03607 FMC)  
v. )  
) Central District of California  
SCOTT SMITH, )  
dba EntrepreneurPR, )  
)  
Defendant-Appellant, )  
)  

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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 REPLY BRIEF**

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## INTRODUCTION

*Law of the case.* Like the barking dog in the celebrated Sherlock Holmes story, its absence is significant. In its Appellee's Brief ("App. Br."), EMI used all but 265 words of its page limitation, yet nowhere in it does EMI mention, much less address, this central issue. Neither "*law of the case*" nor "*doctrine of mandate*" are included among the 13,735 words expended in EMI's brief. Their absence is significant because the issues they denote are central to this appeal. Rather than expound on why these important appellate doctrines do not apply to this case, EMI simply asserts that Smith's position is based upon a "misconception" of this Court's prior opinion. (App. Br. 21) EMI implies that the injunction affirmed by this Court was tantamount to a preliminary, not a permanent injunction. (*Id.*) EMI argues that "The District Court followed this Court's directive and issued the limited injunction, which remained in effect through trial. SER 17-19" (*Id.*) This argument ignores the fact that what was affirmed by this Court was a judgment (and permanent injunction) on the merits, not the grant of a preliminary injunction. In fact, the supplemental excerpt of record cited by EMI (SER 17-19) is the permanent injunction entered by the trial court. It is neither preliminary nor interlocutory. Thus, it presents a *res judicata* bar to relitigating those underlying issues. It is disingenuous for EMI to infer that this was merely an interlocutory order, or one "which remained in effect through trial." EMI also fails to explain how Smith has misconstrued this Court's prior opinion. Specifically, EMI does not address the following language in the published opinion: "We therefore affirm the



district court's grant of summary judgment to EMI on this issue" and "therefore . . . remand except as to that issue." 279 F.3d at 1153.

Aside from the "law of the case" issue, it is difficult to discern any portion of the trial court's "Findings of Fact and Conclusions of Law" that harmonize with this Court's prior opinion and the manifold analytical directives it contains.

The trial court's failure to abide this Court's prior opinion did more than effect the result on remand. It affected the fairness of the trial process. Indeed, at the pretrial conference, Smith's counsel, Jeff Kravitz, urged the trial judge to address the "law of the case" issues. (See Appellant's Further Excerpts of Record ("FER") 3:18) Smith's counsel sought clarification from the trial judge as to the scope of the trial on remand:

So, in my mind, there is no doubt that the district court will apply the *Sleekcraft* factors with the caution in mind that there are necessary-the descriptive nature and common necessary uses of the word "entrepreneur." (FER 4:3)

The trial judge responded as follows:

THE COURT: I got the message, yes.

Well, I'm not quite sure what you're asking. I mean, what has been determined by the Ninth Circuit I think is very clear in this opinion. I didn't find anything ambiguous or confusing about it.

Some areas they said there is a triable issue of fact for the jury. Others they found to have been resolved on the evidence that was before me in summary judgment. (*Id.*)

The foregoing exchange at the pretrial conference is significant because Smith's counsel had no reason to expect that he would be defending against a complete trial de novo. He had every reason to expect that the trial issues would

be limited in line with this Court's prior opinion, and that they would not include any issues of infringement or damages with respect to the printed publication and Smith's use of *Entrepreneur Illustrated*. Thus, the ensuing trial on remand produced an equitable result by means of an unfair process. Smith and his counsel were essentially ambushed by having to defend against issues they had no reason to anticipate.

### **STANDARD OF REVIEW**

We stated in Smith's opening brief that the instant appeal is subject to a mixed standard of review. EMI contends that only the clear error standard applies. (App. Br. 13-14) That is not the correct standard where the judgment appealed from includes a grant of permanent injunctive relief. The district court's decision to grant permanent injunctive relief is reviewed for an abuse of discretion. *Ting v. AT&T*, 319 F.3d 1126, 1134-35 (9th Cir. 2003) (noting underlying facts are reviewed for clear error and conclusions of law reviewed de novo); *Biodiversity Legal Foundation v. Badgley*, 309 F.3d 1166, 1176 (9th Cir. 2002) (noting underlying legal rulings are reviewed de novo). When the court's decision to grant injunctive relief rests on an interpretation of a state statute (e.g., California Business and Professions Code sections 17200 et seq.), review is de novo. *A-1 Ambulance Service, Inc. v. County of Monterey*, 90 F.3d 333, 335 (9th Cir. 1996).

Moreover, the scope of injunctive relief is reviewed for an abuse of discretion. See *Idaho Watersheds Project v. Hahn*, 307 F.3d 815, 823 (9th Cir. 2002); *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596, 602 (9th Cir. 2000). In the instant case, Smith challenges both the propriety and scope

of the permanent injunction in the underlying judgment. Smith contends that the scope of the permanent injunction is in excess of that permitted by the law of the case. Thus, whether this Court's review of the permanent injunction is characterized as a "law of the case" issue or as a "scope of injunctive relief" issue, the standard of review is the same, i.e., abuse of discretion.

We acknowledge that, typically, a district court's findings of fact are reviewed under the clearly erroneous standard. *McClure v. Thompson*, 323 F.3d 1233, 1240 (9th Cir. 2003). Even if that more deferential standard is applied to the underlying findings of fact, the result should be the same. An appellate court must not accept the lower court's findings of fact if it is left with the definite and firm conviction that a mistake has been committed. *Gonzalez-Caballero v. Mena*, 251 F.3d 789, 792 (9th Cir. 2001). The district court's account of the evidence must be plausible in light of the record viewed in its entirety. *United States v. Working*, 224 F.3d 1093, 1102 (9th Cir. 2000) (*en banc*). Where, as here, the district court's findings are merely adopted from the proposed findings submitted by a party, the reviewing court will review them with "particularly close scrutiny." *Commodity Futures Trading Comm'n v. Topworth Int'l, Ltd.*, 205 F.3d 1107, 1112 (9th Cir. 2000). Thus, while special deference is paid to a trial court's factual findings, including findings of credibility, the trial court's conclusions of law, including the scope of the permanent injunction, are reviewed for abuse of discretion; i.e., "a plain error, discretion exercised to an end not justified by the evidence, a judgment that is clearly against the logic and effect of the facts as are found." *Wing v. Asarco Inc.*, 114 F.3d 986, 988 (9th Cir. 1997). This standard would apply to the

district court's interpretation of the state unfair competition claims, as well as its award of attorneys' fees to EMI. *Smith v. Jackson*, 84 F.3d 1213, 1221 (9th Cir. 1996). Reversal under the abuse of discretion standard is appropriate when the appellate court is persuaded that "the reviewed decision lies beyond the pale of reasonable justification under the circumstances." *Harman v. Apfel*, 211 F.3d 1172, 1174 (9th Cir. 2000). A district court abuses its discretion if it does not apply the correct law or if it rests its discretion on a clearly erroneous finding of material fact. *Bird v. Lewis & Clark College*, 303 F.3d 1015, 1020 (9th Cir. 2002). Moreover, even when a trial court applies the correct law to facts that are clearly not erroneous, it may abuse its discretion if it rules in an irrational manner. *Chang v. U.S.*, 327 F.3d 911, 925 (9th Cir. 2003).

"A district court by definition abuses its discretion when it makes an error of law." *Koon v. United States*, 518 U.S. 81, 100 (1996); *see also U.S. v. Martin*, 278 F.3d 988, 1001 (9th Cir. 2002) (applying *Koon*). A trial court abuses its discretion by erroneously interpreting a law, or by resting its decision on an inaccurate view of the law. *Richard S. v. Dept. of Developmental Services*, 317 F.3d 1080, 1085-86 (9th Cir. 2003).

Thus, we believe the predominate standard of review in this matter is the abuse of discretion standard. It is that standard of review that controls the trial court's analysis of the *Sleekcraft* factors, its determination of likelihood of confusion, and the scope of the permanent injunction it issued. Review of the district court's evidentiary rulings for clear error will not change the result.

## ARGUMENT

### **I. EMI Presented No Evidence On Remand That Its Mark Was Strengthened By Consumer Association**

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In its prior opinion, this Court held that EMI's mark was weak, and that it "falls within the descriptive category." (279 F.3d at 1142) This Court further held that the word "entrepreneur" describes "both the subject matter and the intended audience of the magazine and programs . . . . As such, the word 'describes the qualities or characteristics' of EMI's products, and is not merely suggestive." [citation omitted] (*Id.*) And, while we agree that the incontestable status of EMI's mark serves as conclusive proof that the mark has secondary meaning, this Court correctly noted that "the relative strength or weakness of EMI's mark does affect whether a consumer would likely be confused by the mark Smith uses." (*Id.* at n. 3) On remand, EMI presented no evidence of secondary meaning; i.e., it presented no evidence tending to show the strength of consumer association of "entrepreneur" with EMI or its magazine. This failure of proof is best reflected in the testimony of Virginia Mann, EMI's psycholinguistics expert. Ms. Mann offered opinion testimony that EntrepreneurPR and *Entrepreneur Illustrated* could be confused with *Entrepreneur*. (FER 29:6) However, Ms. Mann did not consider any data showing whether consumers associate "entrepreneur" with *Entrepreneur* magazine. Ms. Mann did, however, acknowledge that "entrepreneur" was a common, generic term (FER 40:21 & 47:13). The following passage is illustrative:

MR. KRAVITZ: Alright, ok.

Q. I think I asked this before but let me just make sure I did. You did no research whatsoever to find out if members of the public associate

the word "entrepreneur" with "Entrepreneur" magazine. Is that correct?

MR. FINKELSTEIN: Well, Mr. Kravitz gave my objection. It's asked and answered.

THE COURT: Well, its cross, so he can ask it more than once.

BY MR. KRAVITZ: Q. Is that correct? You did no research to find out if the public associates the word "entrepreneur"?

A. No formal research. (FER 54-55)

And, although Ms. Mann opined that consumers might associate EntrepreneurPR and *Entrepreneur Illustrated* with *Entrepreneur*, that testimony did not reconcile with her testimony that consumers would not associate *Entrepreneurs Only* with *Entrepreneur*. (FER 45) In fact, Ms. Mann was asked directly by Smith's counsel whether, if Smith's publication was called *Entrepreneurs Only*, there would be any consumer association between it and *Entrepreneur* magazine. Ms. Mann said that any consumer association would depend upon the visual similarity between Smith's publication cover and the cover design used by EMI. (FER 46) Thus, again, EMI offered no evidence on remand to enhance the likelihood of confusion analysis already rendered in this Court's prior opinion.

**A. No Evidence was Presented from the Standpoint of the Relevant Buying Public**

Stated simply, there was no evidence presented on remand to represent the viewpoint of the average reasonable consumer.<sup>1</sup> The testimony elicited by EMI

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<sup>1</sup> "Evidence of secondary meaning from a partial source possesses very limited probative value." *Filipino Yellow Pages, Inc. v. Asian Journal Publications, Inc.*, 198 F.3d 1143, 1152 (9th Cir. 1999); *see also Norm Thompson Outfitters, Inc. v.*

was taken only from disgruntled former clients of Smith's. EMI's expert testimony skirted the issue of consumer association entirely, and EMI offered no survey or statistical evidence from which the trial court might have drawn inferences about the degree of consumer association achieved by EMI's mark (i.e., its inherent strength as reflected by the level of secondary meaning it has achieved in the marketplace). The absence of this evidence is significant because even the most cursory reading of this Court's prior published opinion makes clear that EMI's challenge at trial was to present qualitatively better evidence targeted toward establishing the strength of EMI's mark. Even without the benefit of this Court's prior opinion, such evidence was obligatory because EMI selected a mark that is a common English noun, without synonym, subject of widespread use by others in a "crowded field" of marks. (279 F.3d at 1143-44) This Court required EMI, on remand, to adduce evidence that its inherently weak mark should be strengthened by such factors as extensive advertising, length of exclusive use, and public recognition. (*Id.* at 1144) EMI offered nothing to enhance the prior record on these issues. This Court had already accepted as undisputed the fact that "EMI has used the trademark ENTREPRENEUR to identify its magazine since 1978 and that EMI sells more than a half million copies of *Entrepreneur* magazine monthly, with

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*GMC Corp.*, 448 F.2d 1293, 1297 (9th Cir. 1971) (testimony from persons closely associated with plaintiff does not adequately reflect the views of the buying public); *Self-Realization Fellowship Church v. Ananda Church of Self-Realization*, 59 F.3d 902, 910 (9th Cir. 1995) (testimony from plaintiff's employees and wholesalers had little probative value regarding assessment of consumer perception). Consideration of these cases makes the evidence presented by EMI starkly insufficient. At minimum, the evidence was neither quantitatively nor qualitatively different than what was before the court on summary judgment.

a total number of readers over two million monthly." (*Id.*) With those facts established, this Court held that "nonetheless, EMI has not demonstrated that it has so strengthened its mark as to weigh this factor [strength of the mark] in favor of finding likely confusion." (*Id.*)

**B. EMI Offered No New Evidence to Strengthen its Mark**

In its brief, EMI claims that it presented "substantial new evidence of the strength of the mark." (App. Br. 25) In fact, four pages of its brief are dedicated to that headline. However, those four pages point only to evidence of EMI's advertising expenditures, its circulation, and the number of website visitors logged onto to EMI's site since January 2001. Significantly, EMI makes the following statement in its brief: "EMI has achieved significant public recognition and is 'well-known' as the publisher of its magazine and purveyor of its products and services. (ER 680-81)" (App. Br. 28) The excerpt of record that EMI points to as supportive of its "significant public recognition" is not evidence at all. It is merely the Findings of Fact and Conclusions of Law underlying the judgment we now appeal from. (ER 680-81)

**II. Abundant Evidence Of Third Party Use Was Presented Below; Enough To Cause The Trial Court To Reject Further Evidence As Cumulative**

EMI argues that the evidence below showed a diminished need of the marketplace to use "entrepreneur" and a lack of widespread use of "entrepreneur" by others. (App. Br. 28-29) EMI further protests that, although several trademark registrations containing "entrepreneur" are part of the record, there was no evidence presented regarding what use the owners are or were making of those



marks. (App. Br. 30) EMI argues that the mere citation of third party registrations is not proof of third party *uses* for the purpose of showing a crowded field and relative weakness. (*Id.*) EMI overlooks the portions of this Court's prior opinion regarding the extensiveness of third party use, the need of others in the marketplace to use the term "entrepreneur," the existence of other magazines in which the word "entrepreneur" makes up part of the title, the numerous companies which have registered marks that include the word "entrepreneur," over 1,000 website domain names containing the word, and the extensive evidence of the frequent use of the word "entrepreneur" as a common noun. (279 F.3d at 1143)

EMI further overlooks the fact that the trial judge turned away evidence related to third party use because it was cumulative and had already been established by "plenty of evidence." (SER 592)

The trial judge interrupted Smith's cross-examination of one of the witnesses (Curtis) offered by EMI in support of actual confusion. When Mr. Kravitz began questioning whether Curtis had encountered any other businesses that use the word "entrepreneur" in their title, the trial court cut him off, stating:

THE COURT: Well, I think there is a real relevance problem with—we know that the word "entrepreneur" is out there in the market.

I think there is plenty of evidence of that and its use by other companies and I think the parties have introduced evidence to that effect . . . ." (SER 592)

### **III. The Overall Balance Of The *Sleekcraft* Factors**

This Court previously held that Smith's use of "Entrepreneur Illustrated" on the cover of his printed publication (as it then appeared in the record) would likely

confuse an appreciable number of reasonably prudent consumers, and thus infringed EMI's mark. (279 F.3d at 1152-53)

We reached this result because of the strong visual similarity of the marks—due to the small size and the degree of obstruction of the word "Illustrated"—and because of Smith's knowing adoption of this similar mark and other evidence demonstrating Smith's intent to deceive. (*Id.*)

**A. Intent**

Thus, this Court already considered Smith's intent and his "knowing adoption of a similar mark." On remand, EMI was called upon to present additional evidence that would be instructive on the other *Sleekcraft* factors, and then with the caveat that "the weakness of EMI's mark alone weighs heavily against finding infringement as a matter of law." (*Id.* at 1153)

At trial on remand, evidence of Smith's intent could achieve no more weight, quantitatively or qualitatively, than it did on summary judgment. Intent is not a sliding-scale factor. It would be irrelevant whether Smith acted with a little intent or a large quantity of intent. This factor should have been assigned no more weight by the trial court on remand than was assigned to it by this Court on review of the prior summary judgment.

**B. Degree of Consumer Care**

As noted in Smith's opening brief, this factor was not mentioned at all in the trial court's findings of fact. It is, therefore, apparent that it was not weighted against finding a likelihood of confusion as this Court directed. 279 F.3d at 1152.

**C. Expansion of Product Lines**

As noted by this Court in its prior opinion, "the district court erred in finding that the parties' marketing channels overlapped as a matter of law and EMI presented no evidence of the party's intent to expand into each other's product lines, the district court should have weighed this factor against finding likely confusion." (*Id.*; emphasis in original) Just as before, EMI presented no evidence on remand that EMI intended to expand its product line to include public relations services competitive with Smith's. EMI now argues on appeal that it presented "new evidence that it has expanded into providing more public relations services through its partnership with PR Newswire." (App. Br. 43) This so-called "new evidence" was merely a link on EMI's website, whereby a visitor to EMI's website would be transferred to PR Newswire's site. (SER 60-62, 465-66) Although euphemistically characterized as a "strategic alliance" (App. Br. 43), there was no evidence to support a conclusion that EMI had expanded into the public relations market. PR Newswire is a separate entity, unrelated and unaffiliated with EMI. Moreover, no evidence was offered to explain the "strategic alliance" that would suffice to conclude that EMI had entered the public relations market.

**D. Overlap of Marketing Channels**

Again, this Court provided guidance to both EMI and the district court for consideration of this issue. This Court noted that "it does not appear that either parties' use of the Web is significant enough to be pertinent. As to other marketing channels, they do not overlap to any significant degree." (279 F.3d at 1151-52) EMI claims in its brief that new evidence was presented to demonstrate that EMI

uses the internet as a substantial marketing channel. (App. Br. 42) However, the supplemental excerpt cited by EMI shows only that EMI spent \$2 million per year marketing various goods and services on its website and that "Smith also uses the Internet as a marketing channel." (SER 57, 91.) This meager evidence falls short of addressing this Court's directives with respect to web-based marketing and does nothing to address the marketing channels associated with Smith's business name and printed publication. No evidence was adduced that was sufficient to justify departure from this Court's holding that:

Smith's potential patrons are only a few of the entrepreneurs themselves, in their role not as individual readers, but as businesses seeking public relations services. The publications do not compete for subscribers, newsstand purchasers, or advertisers because *Entrepreneur Illustrated* is not for sale and does not feature paid advertisements.

This factor, then, cannot weigh in favor of granting summary judgment to EMI. (279 F.3d at 1152)

**E. Relatedness or Proximity of the Parties' Goods and Services**

This Court's published opinion stated in part: "In sum, although we agree that the parties' goods are related, this factor does not weigh heavily in favor of likely confusion as a matter of law." (*Id.* at 1148)

This Court synopsis its reasoning on this issue as follows:

To weigh this relationship heavily in favor of a likelihood of confusion in any case brought by EMI would provide an advantage to EMI because EMI's mark is weak—descriptive of both its subject matter and intended audience—and would thereby counsel avoidance of such descriptive words in marks. (*Id.* at 1147)

**F. Actual Confusion**

While EMI did offer some evidence of actual confusion on remand, the evidence came from less than credible sources (obviously biased and/or hostile witnesses) and more frequently established discernment rather than actual confusion.<sup>2</sup> We acknowledge that this Court left it to the trier of fact to determine whether the evidence better represented actual confusion or discernment. (*Id.* at 1150-51) However, this Court did conclude that, on the prior record, a reasonable juror would have to find actual confusion and that "this factor weighs in favor of summary judgment for EMI." (*Id.* at 1151) The Court also stressed: "We do not believe, however, that this factor weighs heavily in this direction . . . ." (*Id.*) Thus, even with actual confusion established, this Court directed that this factor not be weighted heavily against Smith.

**G. The Evidence on Remand Did Not Suffice to Depart from This Court's *Sleekcraft* Analysis**

This Court weighed intent against Smith in its prior opinion. It also weighed actual confusion against Smith, but not heavily. With respect to overlapping marketing channels and expansion of product lines, this Court previously gave those factors no weight because the evidence was insufficient or non-existent. As noted above, the state of the evidence on these factors did not change at trial. Therefore, the trial court was without justification to assign any more weight to these factors than did this Court. With respect to the degree of consumer care, no evidence was presented on remand to justify a change in this factor's weight.

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<sup>2</sup> See footnote 1, *supra*, for discussion about the quality of this evidence.

With respect to relatedness or proximity of the parties' goods, this Court assigned little weight to this factor, principally because EMI consciously selected an inherently weak mark, one that is descriptive of both its magazine's subject matter and intended audience. (*Id.* at 1147) Balanced against the "broad societal interest in preserving common, useful words for the public domain . . . , the minimal similarity between EMI's services and Smith's did not "suggest strongly a likelihood of confusion." (*Id.* at 1148) Thus, this factor "does not weigh heavily in favor of likely confusion as a matter of law." (*Id.*) On remand, there was no quantitatively or qualitatively different evidence presented. Thus, no change in the weight of this factor was justified.

This simple recap of the overall balance of the *Sleekcraft* factors clearly shows that the trial court abused its discretion in departing from the law of the case and in expanding the injunction vastly in excess of what was ever contemplated by this Court.

#### **IV. Smith Did Not Waive His Fair Use Defense**

The mark ENTREPRENEUR is incontestable only because EMI filed an affidavit, in accordance with 15 U.S.C. § 1065, declaring that the mark was used in commerce for five consecutive years. There can be no dispute, then, that EMI's use of its mark is subject to all the defenses listed in 17 U.S.C. § 1115. Specifically, EMI's right to use its mark is "subject to" any other person's use of such "term or device which is descriptive of and used fairly and in good faith only to describe" his or her goods and services. 17 U.S.C. §1115(b)(4). Here, Smith

used the word "entrepreneur" in that word's descriptive sense as part of his marks to convey that his company provided public relations services to entrepreneurs.

EMI correctly points out that Smith did not specifically mention the words "fair use" in his Answer or in the Pretrial Conference Order. Of course, the statute itself does not use the words "fair use" either, but these facts are of no consequence. The Supreme Court instructs us that "[i]t is indeed the general rule that issues must be raised in lower courts in order to be preserved as potential grounds of decision in higher courts. But this principle does not demand the incantation of particular words; rather, it requires that the lower court be fairly put on notice as to the substance of the issue." *Nelson v. Adams USA, Inc.*, 529 U.S. 460, 469-70 (2000) (emphasis added); *accord, Harris Trust and Sav. Bank v. Salomon Smith Barney, Inc.*, 530 U.S. 238, n. 2 (2000) (an argument is not waived as long as the lower court understands the "tenor of the argument"); *Sandgathe v. Maass*, 314 F.3d 371, n. 4 (9th Cir. 2002) (an issue "adequately presented" below is subject to review); *U.S. v. Rebbe*, 314 F.3d 402, 405 (9th Cir. 2002) ("ample facts in the record" demonstrate that defendant raised the issue below).

Smith asserted in his Answer that his use of his marks "were privileged based upon principles of free speech and free competition,"<sup>3</sup> that "EMI has acquiesced in the use by others of numerous trademarks and service marks that

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<sup>3</sup> McCarthy notes in his articulation of the fair use defense that "[t]he original, descriptive primary meaning is always available for use by others to describe their goods, in the interest of free competition." 2 J. Thomas McCarthy, *McCarthy on Trademark and Unfair Competition* § 11:45 (4th ed. 2001) (emphasis added).

contain the word 'Entrepreneur' or some derivation thereof" and that "EMI's trademarks are invalid because they are highly descriptive." ER 25. Smith continued these assertions in the Pretrial Conference Order by stating that "[t]he defendant also has evidence showing Smith's clear intent to use his mark because he believed that it was legally available to him." ER 771<sup>4</sup> These very pointed assertions articulate the statutory defense that his mark is a "term . . . which is descriptive of and used fairly and in good faith only to describe" his services. 17 U.S.C. §1115(b)(4). This statute is simply a restatement of the corresponding common law defense. *Car-Freshener Corp. v. S.C. Johnson & Son, Inc.*, 70 F.3d 267, 269 (2nd Cir. 1995). It was not necessary, therefore, for Smith to cite to that particular statute. Smith clearly put EMI and the lower court on notice of the substance of his defense and had no obligation to recite the specific words "fair use."

This Court's prior decision implicitly mandates that the issue be addressed. This Court's order directing the lower court to enter a permanent injunction permitting Smith to use the word "entrepreneur" in the title of his publication *Entrepreneur Illustrated* is a holding that such use is not proscribed by EMI's registered mark. *EMI*, 279 F.3d at 1153. This holding indicates that EMI's use of its mark is "subject to" Smith's use of the same mark to describe his publication. Thus, this Court has already ruled, implicitly at least, on whether EMI's mark is subject to "fair use." This Court has, furthermore, cited to and quoted from its

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<sup>4</sup> Smith's citation in footnote 4 of his Opening Brief to subpart (b) of the Pretrial Conference Order was a typographical error and should have read "subpart (c)."



prior ruling in this very case to further explain its application of the fair use defense. *Brother Records, Inc. v. Jardine*, 318 F.3d 900, 906 (9th Cir. 2003). The fact that Smith, on appeal, now uses the term "fair use" to describe his defense does not mean the defense was not before the lower court. The Ninth Circuit recognizes that "[a]n argument is typically elaborated more articulately, with more extensive authorities, on appeal than in the less focused and frequently more time pressured environment of the trial court, and there is nothing wrong with that." *Puerta v. U.S.*, 121 F.3d 1338, 1342 (9th Cir.1997).

EMI's reliance on the portion of the Pretrial Conference Order where Smith stated he had no "affirmative defenses" is meager support for the argument that Smith waived his fair use defense. (App. Br. 48.) First, it is not clear that trademark fair use is technically an "affirmative" defense. See, e.g., 17 U.S.C. §1115(b)(4) (only the word "defenses" used to describe those circumstances proscribing trademark enforcement); Fed.R.Civ.P. 8(c) (fair use not listed as affirmative defense). Even if fair use is an affirmative defense, this Circuit appropriately recognizes substance over form and is loathe to find a waiver of fully developed arguments. *Sandgathe v. Maass*, 314 F.3d 371, 378 (9th Cir. 2002) ("confused arguments or poor lawyering through inapposite federal citations is not the same as failing to raise an argument at all"); *Mejia v. Ashcroft*, 298 F.3d 873, 876 (9th Cir. 2002) (failure to recite the proper standard of review does not constitute waiver of a properly raised merits issue).

Second, Smith and EMI fully developed the record with facts that address Smith's fair use defense. The chief reason for the rule that precludes appellate

review of issues not raised below is that the appellate court requires a "properly developed record on appeal." *Bankers Life and Cas. Co. v. Crenshaw*, 486 U.S. 71, 79 (1988); *Illinois v. Gates*, 462 U.S. 213, 221 (1983). A sufficient record justifies consideration of a "more general argument" on appeal than was raised below. *Simkins v. NevadaCare, Inc.*, 229 F.3d 729, 736 (9th Cir. 2000). The record is sufficiently developed for this Court to review the issue. *Jordan v. Clark*, 847 F.2d 1368, n. 6 (9th Cir. 1988) (absent some reason that a more careful framing of the issue would have brought additional facts forward, a fully developed record justifies review of issues not raised below); *In re America West Airlines, Inc.*, 217 F.3d 1161, 1165 (9th Cir. 2000).

Third, although the district court did not expressly rule on Smith's defense, rulings implicit in the district court's judgment may be reached and affirmed on appeal. *Towe Antique Ford Foundation v. I.R.S.*, 999 F.2d 1387, 1394 (9th Cir. 1993). The district court implicitly ruled on the fair use issue because it enjoined Smith from all use of the words *Entrepreneur Illustrated* in commerce—even though this Court had previously held that Smith could use those words so long as *Illustrated* was not downplayed or obscured. ER 676.

Should this Court determine, however, that the district court did not rule on Smith's fair use defense or that Smith did not raise the defense at all, this Court should nonetheless exercise its discretion and reach the issue. *Aguon v. Calvo*, 829 F.2d 845, 848 (9th Cir. 1987) (although appellate courts will not normally consider an issue not passed upon below, they have the power to do so and may exercise that power in their discretion). This Court should do so because the

record is fully developed on the issue and because this Court has already ruled, implicitly at least, on the issue in its earlier decision in this case. Moreover, Ninth Circuit law on this issue is at odds with other Circuit Courts. EMI correctly notes (App. Br. 50) that the Supreme Court has recently granted certiorari on a case from this Circuit that will address the question of whether the fair use defense is applicable in cases where use of an allegedly infringing mark causes confusion among consumers.<sup>5</sup> This Court should take this opportunity to apply whatever rule comes out of the Supreme Court in order to inform trademark owners how the new rule will be applied in this Circuit. This issue, then, raises "significant questions of general impact" and justifies relaxing the rule against deciding issues not addressed below. (*Id.*)

**V. Smith's Use of the Word "Entrepreneur" was Fair**

EMI fundamentally misconstrues the fair use defense. Under the doctrine of fair use, the holder of a trademark cannot prevent others from using the word that forms the trademark in its primary or descriptive sense. *KP Permanent Make-Up*, 328 F.3d at 1071 ("[c]lassic fair use is that in which the alleged infringer has used the trademark holder's mark only to describe his own product") (internal punctuation omitted); *Brother Records, Inc. v. Jardine*, 318 F.3d 900, 906 (9th Cir. 2003). McCarthy is just as direct: "[t]he only right of exclusion that trademark law creates in a descriptive word is in the secondary, new, "trademark" meaning of the word that plaintiff has created. The original, descriptive primary meaning is

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<sup>5</sup> *KP Permanent Make-Up, Inc. v. Lasting Impression, Inc.*, 328 F.3d 1061 (9th Cir. 2003), *cert. granted*, \_\_\_\_\_ S.Ct. \_\_\_\_\_ 2004 WL 42544 (2004).

always available for use by others to describe their goods, in the interest of free competition.") 2 J. Thomas McCarthy, *McCarthy on Trademark and Unfair Competition* § 11:45 (4th ed. 2001).

Here, the analysis is whether Smith's use of the mark ENTREPRENEUR (which is, of course, simply the word "entrepreneur") was fair—NOT, as EMI apparently believes, whether Smith's use of any of his marks incorporating that word was fair.

EMI's misconstruction of this defense is inexcusable considering that this Court has used its prior decision in this very case to explain the fair use defense in other cases: "Likewise, in *Entrepreneur Media, Inc. v. Smith*, 279 F.3d 1135 (9th Cir. 2002), we recognized that trademark protection extends only to the secondary, trademark meaning of a descriptive mark, and not to the primary descriptive meaning of the terms. . . . We emphasized that . . . plaintiff cannot have the exclusive right to use the *word* 'entrepreneur' in any mark identifying a printed publication addressing subjects related to entrepreneurship" (emphasis in original and internal quotations omitted). *Brother Records*, 318 F.3d at 906.

EMI, therefore, is flatly wrong when it states that because Smith used "his marks" as trademarks, he "is not entitled to claim the fair use defense." (App. Br. 50) The proper test is whether Smith's use of the word "entrepreneur" is "descriptive of and used fairly and in good faith only to describe" his services. 17 U.S.C. §1115(b)(4).

Smith's only use of the word "entrepreneur" was in the title of his publication. This Court has already resolved that issue.

Smith used the word "entrepreneur" as part of his "EntrepreneurPR" and "entrepreneurpr.com" marks. The question is whether he used the word (1) as a trademark, (2) fairly and in good faith, and (3) only to describe his services. 17 U.S.C. §1115(b)(4). Smith notes that (1) it is apparent by simply looking at his two marks that they are not the word "entrepreneur" and, therefore, that he did not use the word as a trademark, (2) the record is replete with extensive third party use of the word "entrepreneur" on goods and services related to entrepreneurship<sup>6</sup>, and (3) of course Smith used "his marks" to "distinguish his products from the products of others." The relevant question, however, is whether he used the word "entrepreneur" in that word's descriptive sense to describe his services. As both this court and EMI have made clear, no other word suffices to accurately describe entrepreneurs. *EMI*, 279 F.3d at 1144; ER 286.

Once the fair use analysis is properly performed, this Court should hold that his use of the word "entrepreneur"—as part of his "EntrepreneurPR" and "entrepreneurpr.com" marks—was a fair way to describe his public relations services to entrepreneurs.

## **VI. The Decision to Award Smith's Profits to EMI Was an Abuse of Discretion**

EMI did not introduce any evidence to establish its damages from Smith's use of his marks. EMI sought only Smith's profits. Smith contends that injunctive relief is the only appropriate remedy in this case. EMI, however, relies on *Playboy*

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<sup>6</sup> As noted above, the trial judge accepted that third party use was established by abundant evidence. (TR at 123:6)

*Enterprises, Inc. v. Baccarat Clothing Co., Inc.*, 692 F.2d 1272, 1274 (9th Cir. 1982) for the proposition that "the trademark owner and the buying public are slighted if a court provides no greater remedy than an injunction" when trademark infringement yields financial awards. (App. Br. at 53.)

This Court has expressly limited *Playboy* and has refused to award defendant's profits when the plaintiff's mark was weak and the infringement unintentional. *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 982 F.2d 1400, 1406-07 (9th Cir. 1993). The unwillingness to award profits in those circumstances is consistent with the statutory mandate that monetary awards to a prevailing trademark plaintiff are "subject to the principles of equity" and "shall constitute compensation and not a penalty." 15 U.S.C. §1117(a). Indeed, as the Supreme Court notes, the controlling case law governing the accounting for profits "does not stand for the proposition that an accounting will be ordered merely because there has been an infringement." *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 131-32 (1947) (noting that *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203 (1942) states the rule governing the accounting of profits).

Equitable restraint on monetary awards is the rule in this Circuit. *Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117, 120 (9th Cir. 1968) (equitable limitation on monetary awards under the Lanham Act "make it clear that such a remedy should not be granted as a matter of right"). *Maier Brewing Co.* maintains that monetary damages should not be awarded when "the infringer has developed what he imagined to be a proper trade name only to find out later that his name caused confusion as to the source of, and therefore infringed, a product

with a registered trade-mark." *Maier Brewing Co.*, 390 F.2d at 123. This statement is consistent with Supreme Court precedent noting that an accounting of profits should be denied "where an injunction will satisfy the equities of the case." *Champion Spark Plug Co.*, 331 U.S. at 132 (granting only injunctive relief and listing similar cases).

EMI states it is entitled to Smith's profits because of his "knowing adoption of marks similar to EMI's, with the intent to deceive the public . . . together with the actual confusion" he caused. (App. Br. at 53) EMI then states "Smith offered no argument to the contrary." (*Id.* at 54) This statement is, of course, incorrect. Smith has exhaustively argued that he did not intend to deceive the public with the choice and use of his marks and has refuted EMI's evidence of actual confusion. To justify a remedy more severe than injunctive relief, EMI relies on the district court's finding of willful infringement. However, in awarding Smith his costs in his prior appeal, by instructing the district court to "exercise caution in extending the scope of protection" to EMI's mark, by further instructing the district court to consider damages on remand only "if appropriate," and in reversing the district court's grant of damages to EMI—including damages for Smith's infringing use of *Entrepreneur Illustrated*—this Court has already made known that any damages award in this case is subject to the equitable restraints appropriate for innocent infringers.

## **VII. Smith Did Not Waive His Objection To The Attorney Fee Award**

A court may award the prevailing party reasonable attorney fees under 15 U.S.C. §1117(a) only if the case is "exceptional." (*Id.*) An "exceptional" case

is one where "the infringement is malicious, fraudulent, deliberate, or willful." *Horphag Research Ltd. v. Pelligrini*, 328 F.3d 1108, 1113 (9th Cir. 2003). EMI asserts that because the district court found that "this case involves intentional infringement, and therefore is an exceptional case," a fee award was appropriate. (App. Br. 59)

EMI goes further, however, and asserts that Smith waived his objection to the fee award. (App. Br. 58-59) EMI is mistaken. An attorney fee award is permissible only when the case is "exceptional," i.e., when the infringement is deliberate. Smith, however, specifically challenged at trial EMI's assertions that he willfully infringed EMI's mark. Smith has argued below, and in this Court, that he did not select or use his marks with the intention of deceiving the public. The district court was presented with a plethora of evidence to establish Smith's good faith in selecting his marks and in his belief that use of his marks was lawful. As a result, Smith is entitled to challenge the district court's underlying conclusion that he intentionally infringed EMI's mark and the eligibility of this case to sustain an award of attorney fees.

DATED: February 9, 2004.

Respectfully submitted,

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**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 6,924 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: February 9, 2004.

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**STATEMENT OF RELATED CASES**  
**Fed. R. App. P. 28**  
**Circuit Rule 28-2.6 For Case No. 03-56431**

Appellant Scott Smith states that the only known related case is *Entrepreneur Media, Inc. v. Smith*, 279 F.3d 1135 (9th Cir. 2002).

DATED: February 9, 2004.

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