

NINTH CIRCUIT REPORT



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PERFUMEBAY.COM, INC. V. EBAY, INC. ___ FED 3D ___ (9TH CIR. NOV. 5, 2007)

Split Decision for eBay Refines Internet Trademark Infringement Standards

IN AN IMPORTANT DECISION granting a limited injunction to eBay, the Ninth Circuit refines the standard of infringement in an Internet context and shows the importance of third-party search engine *results*.

Here, eBay, the ubiquitous auction site, brought suit against an Internet commerce company selling perfume, using the words “perfume” and “bay” together and apart. Defendant-Appellant, Perfumebay.com (“Perfumebay”) was enjoined from use of “Perfumebay” and “Perfume-Bay,” but not from using non-conjoined versions of its names that include a space between “Perfume” and “Bay,” such as “Perfume Bay.” Since within Internet domain names and addresses, spaces are not tolerated, this was a clear victory for eBay against Internet usage.

The defendant’s owner testified that, while she had initially sold perfume on eBay’s website, she did not intend to copy eBay or cause confusion, but merely selected the first part of the name, “Perfume,” as a generic name and description of her products, and she added the term, “Bay,” because “she envisioned a bay filled with ships importing perfumes from all parts of the world and this bay would be the place where perfume lovers could go to locate the selection of fragrances....” However, as the Court noted, she never used the image of a bay filled with ships on her website. Although this was their most important website, Perfumebay.com also operated other websites not using the same name, but selling similar products.

Both parties appealed. First, Perfumebay appealed the likelihood of confusion finding of infringement stemming from the conjoined forms of “perfumebay.” The Ninth Circuit noted that its eight-factor test of likelihood of confusion, the well-established *Sleekcraft* factors, apply generally in a fluid form in that the courts balance weight of the factors. However, in a helpful, educational, ruling, the Court noted that:

In the Internet context, the three most important *Sleekcraft* factors in evaluating a likelihood of confusion are (1) the similarity of the marks, (2) the relatedness of the goods and services, and (3) the parties’ simultaneous use of the Web as a marketing channel.... When this controlling troika or Internet trinity suggests confusion is likely, the other factors must weigh strongly against a likelihood of confusion to avoid the finding of infringement. If the Internet trinity does not clearly indicate a likelihood of consumer confusion, a district court can

conclude the infringement analysis only by balancing all the *Sleekcraft* factors within the unique context of each case.¹

Here, especially where Perfumebay.com utilizes the spelling as “perfumebay,” the Court found the marks similar. The Court noted that of course the marks are considered in the way they are encountered in the marketplace, and the stronger the mark, the more likely that a consumer would not pay attention to the differences between the marks. The similarity was demonstrated in court in the search engines’ results, resulting in many “eBay” and “perfumebay” links.

Secondly, the goods and services are related. Both Perfumebay.com and eBay sell the same products on the Internet: perfume. In fact, eBay’s testimony indicated that it sold approximately \$6 million in its fragrance/perfume section in less than three years. The Court noted the fact that eBay offers the additional auction component of its website, but held that this did not undercut the relatedness of the goods.

And of course, the third factor that both parties utilizing the Internet “as a marketing and advertising facility” exacerbated the likelihood of confusion. In a very broad statement, the Ninth Circuit cited its prior decision in *GoTo.com, Inc. v. Walt Disney Co.*,² where it said that the Web, as a marketing channel, is particularly susceptible to a likelihood of confusion since, as it did in this case, it allows for competing marks to be encountered at the same time, on the same screen. As the court noted, “Because these three primary factors for Internet trademarks weighed against Perfumebay.com, the remaining factors, actual confusion, marketing channels utilized, degree of consumer care, Perfumebay’s intent, and like-

likelihood of expansion into other markets, would have to "weigh strongly against the likelihood of confusion to avoid the finding of infringement." They did not.

The interesting analysis of the marketing channels vis-à-vis confusion here, show the very important reliance upon search engine demonstrations at trial. Unfortunately, search engines are third-party links and sometimes advertising revenue-driven, and the results change from time-to-time. So it is somewhat fickle, in the author's view, to place a great deal of evidence upon particular live demonstrations of search engine results, particularly where the search engine results depend upon the search engine's particular soft-

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ware, or third-party acts and usage.

After reviewing demonstrations of search engines, the Court noted that:

Internet users type "perfumebay" as a domain name and as an Internet search term, and click onto "perfumebay" links as Internet search results. Internet users do not utilize verbal communication as a basis for the services they seek. The likelihood of confusion, therefore, does not arise in a vacuum, but rather from the manner in which "perfumebay" is used on the Internet. The district court did not err when it considered the likelihood of confusion in the relevant context.

The Ninth Circuit distinguished earlier decisions where very similar marks were found not to be confusing, as either not involving Internet usage³ or concerning only an Internet user typing in a domain name, rather than search engine usage and online advertising, as here.⁴ The search engine results, including the

fact that a very significant number of customers reach eBay through Internet search engines, and that eBay advertises through sponsored links on the Google and Yahoo! search engines, helped convince the Court that, in the Internet context, confusion was likely.

The Permanent Injunction Against Perfumebay.com and Perfume-bay.com is Affirmed

The Court found that the district court did not abuse its discretion in granting an injunction against "perfumebay" and "perfume-bay," but not against "Perfume Bay." Both enjoined forms incorporated "eBay" and

"e-Bay." eBay also cross-appealed, seeking to reverse the ruling of the district court that the non-conjoined variance of "Perfume Bay" did not infringe the eBay trademark. The district court did not enjoin two-word uses of Perfume and Bay. The Court of Appeals found no clear error in the district court's declining to enjoin such non-conjoined versions, and said this appropriately maintained an equitable balance with respect to the disputed marks. The Court recognized that the non-conjoined forms could not be used as domain names, since spaces are not tolerated therein.

Initial Interest Confusion

The Ninth Circuit has wrestled with initial interest confusion in trademark cases, particularly since *Brookfield Communication, Inc. v. West Coast Entertainment Corp.*,⁵ but here the district court had ruled that any initial interest confusion was not actionable. It is not clear why, but apparently Perfume

Bay sought to appeal this decision, upon which it prevailed, but under established Ninth Circuit law, was found not aggrieved, in order to allow it to bring such an appeal. In any event, the Ninth Circuit went on to note that the district court did not clearly err in its initial interest confusion analysis, and that the district court even had a valid basis for finding initial interest confusion, because a consumer might initially assume that Perfume Bay was part of eBay's website or one of eBay's Internet stores, again based upon search results.

eBay's State Dilution Counter-Claim

eBay had also sought injunctive relief under the Federal Trademark Dilution Act and the California Dilution Law, Business & Professions Code § 14330. Under current dilution law, it was undisputed that eBay was a famous mark. The Court stated the standards for showing dilution under the Federal Trademark Dilution Act as requiring that the plaintiff establish that:

- (1) its mark is famous; (2) the defendant is making commercial use of the mark in commerce; (3) the defendant's use began after the plaintiff's mark became famous; and (4) the defendant's use presents a likelihood of dilution of the distinctive value of the mark.⁶

There was some disagreement between the parties as to which factors to apply in the Ninth Circuit in assessing dilution. The district court applied the factors in *Eli Lilly & Co. v. Natural Answers, Inc.*,⁷ as opposed to the factors articulated in *Nabisco, Inc. v. PF Brands, Inc.*⁸ In *Nabisco*, the Second Circuit articulated several factors for demonstrating dilution, including: distinctiveness; the marks' similarities; "proximity of the products and likelihood of bridging the

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gap”; “shared consumers and geographic limitations”; consumer sophistication; actual confusion; “harm to the junior user and delay by the senior user”; and the “effect of senior’s prior laxity in protecting the mark.”

In *Eli Lilly*, which the district court followed, the likelihood of dilution fac-

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tors were limited to the marks’ similarity and the renown of the plaintiff’s trademark. The Ninth Circuit here found that the district court erred by not following *Nabisco* in fully considering the strength of eBay’s mark in making its dilution finding. As the Court noted, the stronger a mark, meaning the more likely it is to be remembered or associated in the mind of the public with the mark’s owner, the greater the protection it is to be accorded by the trademark laws.

The Court noted that even under the *Eli Lilly* limited dilution test, the district court should have considered the strength of the eBay mark and its highly distinctive qualities. The stronger the fame, the less meaningful are differences between the marks. It is not clear whether the Court’s finding of a likelihood of dilution on appeal would affect the result and entitle eBay to now seek an expanded injunction against the non-conjoined forms of Perfume Bay, given the Ninth

Circuit’s finding that the district court did not err in not enjoining such two-word combinations.

It is clear that Internet commerce cases are developing their own law in the Ninth Circuit, which may make it easier for famous trademark owners to protect against similar or dilutive uses. ■

The contents of this article are the opinions of the author only, are not intended to provide specific legal advice, and should not be relied upon as such.

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Endnotes

1. Citing the prior Ninth Circuit decision in *Interstellar Starship Servs., Ltd. v. Epix, Inc.* 304 F.3d 936 (9th Cir. 2002).
2. 202 F.3d 1199, 1206 (9th Cir. 2000).
3. *See, M2 Software, Inc. v. Madacy Entertainment*, 421 F.3d 1073 (9th Cir. 2005).
4. *Entrepreneur Media, Inc. v. Smith*, 279 F.3d 1135 (9th Cir. 2002).
5. 174 F.3d 1036 (9th Cir. 1999).
6. *Avery Dennison Corp. v. Sumpton*, 189 F.3d 868, 874 (9th Cir. 1999).
7. 233 F.3d 456 (7th Cir. 2000).
8. 191 F.3d 208 (2d Cir. 1999).