Establishing Confusion and Applying *eBay* under the Lanham Act

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Beyond *eBay*, commercial speech should not be enjoined unless it is false.

The First Circuit recently upset a preliminary injunction issued to restrict retail use of a firm's name to identify its wares. Swarovski Aktiengesellschaft v. Building No. 19, Inc., 704 F.3d 44 (1st Cir. 2013). As the court explains, defendant, "Building # 19 is an off-price retail store that acquires products through secondary, non-traditional channels and then resells them at discounted prices… [It] spends millions of dollars on newspaper advertising… [that] often feature[s] descriptions of the advertised goods alongside humorous cartoons." 704 F.3d at 46. The plaintiff "is a world-famous manufacturer and distributor of crystal, jewelry and other luxury products. It holds several registered federal trademarks." *Id*. Its goods are sold in a variety of upscale channels, as well as by "eBay and other discount retailers." *Id*. at 47.

Defendant bought Swarovski crystal figurines at a 2011 salvage sale, "The figurines were apparently unaltered… and came boxed in their original packaging with the Swarovski Certificate of Authenticity." *Id*. at 48. After they were advertised for sale, plaintiff sent cease and desist letters, promptly following with a suit. That suit was apparently dropped after defendant agreed to stop advertising and selling disputed goods. The terms of the agreement are not recited.

Wanting to sell its remaining figurines and having Mothers' Day, 2012, in mind, defendant sent proposed advertising to Swarovski. Despite multiple disclaimers, Swarovski again sought a preliminary injunction. About two weeks before the holiday, the court held a hearing and made an expedited, oral determination in Swarovski's favor. But it only addressed relative font size, ruling that "Swarovski" at the top of defendant's ad could be no larger than in a disclaimer at the bottom. *Id*. at 48.

Neither party objected then, but defendant appealed later, urging that the order was improper without findings of likely confusion and irreparable harm. Despite calling the trial court's evaluation "admirable" given the circumstances, the First Circuit finds relief unwarranted absent explicit or implicit findings of likely confusion. *Id*. at 50.

Indeed, the district court found the name necessary to identify the goods and found no evidence of false association or endorsement. The basis for the order, evident in the order itself, was that the size of the font at the top of the page was larger than needed. *Id*. at 48, 51.

To prevail, plaintiff must show "defendant's actual practice is likely to produce confusion in the minds of consumers." *Id*. at 50 (quoting KP Permanent Make–Up, Inc. v. Lasting Impression I, Inc., 543 U.S. 111 (2004)). In that vein, the First Circuit also quotes Justice Holmes' observation, "While a trademark conveys an exclusive right to the use of a mark…, that right generally does not prevent one who trades a branded product from accurately describing it by its brand name, so long as the trader does not create confusion by implying an affiliation…." 704 F.3d at 52 (quoting Prestonettes, Inc. v. Coty, 264 U.S. 359, 368 (1924)).

The court then notes that "Swarovski" in the headline of the ad "might, in theory, have… made the ad look like one from Swarovski… lead (sic) viewers to believe that Swarovski endorsed or sponsored the sale; or… suggested some official affiliation…. But the district court referenced none of these possibilities…." *Id*. In light of that, and the fact that the mark as such was not used, the conventional eight-factor test used by courts, the thirteen-plus factor test used by the PTO or nominative-use approaches seem beside the point.

True statements of fact in commercial speech enjoy constitutional protection. That need

not be considered when statutes explicitly reflect the proposition. To the extent that 33(b)(4) does not, it must nevertheless be accommodated. Although use of the word "Swarovski" in defendant's ads was not literally false, it might create false signals of the type listed by the court. Unless false implications are inescapable, however, courts should, as they do in other false advertising cases, require competent survey evidence. *See, e.g.,* H&R Block's Challenge to Intuit's Comparative Ads.

Such considerations seem intimately related to *eBay's* applicability in Lanham Act cases, the second major point addressed by the court. Swarovski urged it to confirm that trademark plaintiffs who demonstrate likely confusion are presumptively entitled to an injunction. *Id*. at 53. Defendant also pressed the point. Not surprisingly, however, it urged the court "to hold, as other circuits have done in patent and copyright infringement cases, that for preliminary injunctions in trademark infringement suits, *eBay* prohibits a presumption of irreparable harm based on a showing of likely success on the merits." *Id*. at 54 (note omitted).

On that point, the court takes care to note, "two concurrences… separately joined by a total of seven justices, suggested that… 'lesson[s] of ... historical practice' [] might inform the district courts' equitable discretion 'when the circumstances of a case bear substantial parallels to litigation the courts have confronted before.'" *Id*. (quoting eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 395–97 (2006) (Kennedy, J., concurring) and citing id. at 394–95 (Roberts, C.J., concurring)).

Yet the court says, "we need not decide that question…. Whether or not the presumption of irreparable harm remains viable in this context, it is difficult to see how irreparable harm could be established without a finding of confusion, and so the district court's decision did not include adequate findings to support its grant of the injunction." 704 F.3d at 54-55.

Dilution aside, consumer injury is at the heart of nearly every Lanham Act case. Public interests may also bear on copyright and patent cases but not as intensely. Injunctions therefore are as likely to favor the public as a plaintiff — even when a court might be inclined to deny them for, e.g., unclean hands. *See, e.g.*, 'Lawful Use in Commerce' Revisited.

Conversely, however, injunctions that restrict commercial speech potentially *benefitting* consumers or other relevant populations should be based on *clear* evidence that such speech harms, rather than benefits, them. Despite their warts and blemishes, surveys should invariably be preferred over generally uninformed speculation.