

**FOR PUBLICATION**  
**UNITED STATES COURT OF APPEALS**  
**FOR THE NINTH CIRCUIT**

INTERNET SPECIALTIES WEST, INC., a  
California corporation,

*Plaintiff-Appellee,*

v.

MILON-DIGIORGIO ENTERPRISES,  
INC., a California corporation,

*Defendant-Appellant.*

No. 07-55087

D.C. No.

CV-05-03296-FMC

INTERNET SPECIALTIES WEST, INC., a  
California corporation,

*Plaintiff-Appellant,*

v.

ISPWEST, a California company;  
MILON-DIGIORGIO ENTERPRISES INC.,  
a California corporation; ACEWEB  
INTERNET, a California company,

*Defendants-Appellees.*

No. 07-55199

D.C. No.

CV-05-03296-FMC

OPINION

Appeal from the United States District Court  
for the Central District of California  
Florence-Marie Cooper, District Judge, Presiding

Argued and Submitted  
September 8, 2008—Pasadena, California

Filed March 17, 2009

Before: Betty B. Fletcher, Andrew J. Kleinfeld, and  
Johnnie B. Rawlinson, Circuit Judges.

Opinion by Judge B. Fletcher;  
Dissent by Judge Kleinfeld

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**COUNSEL**

William E. Lloyd, Jr., Law Office of William E. Lloyd, Beverly Hills, California, for defendant-appellant Milon-DiGiorgio Enterprises, Inc.

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**OPINION**

B. FLETCHER, Circuit Judge:

Milon-Digiorgio Enterprises, Inc. (“MDE”) appeals the district court’s grant of an injunction against any further use of its registered domain name, “ISPWest.com.” MDE asserts three challenges to the injunction: 1) that the jury’s finding of trademark infringement, which gave rise to the injunction, was the result of an improper jury instruction; 2) that the district court erred in finding that the plaintiff’s claim was not barred by laches; and 3) that the injunction is overbroad. We find that each of these claims fails, and affirm the district court’s grant of the injunction.

**I. CHRONOLOGY**

Internet Specialties West (“Internet Specialties”) and MDE are both internet service providers offering substantially similar services, including internet access, e-mail, and web-hosting. Internet Specialties uses the domain name “IS-West.com”, which it registered in May of 1996. MDE uses

the domain name “ISPWest.com”, which it registered in July of 1998.

Internet Specialties became aware of ISPWest’s existence in late 1998. At that time, the companies did not offer equal services: Internet Specialties offered dial-up, DSL and T-1 internet access nationwide, whereas MDE offered only dial-up internet access and only in southern California. Internet Specialties’ CEO testified that his company was not concerned about competition from MDE at that time, because it did not offer DSL and because the general market for internet technology start-ups was so volatile that most companies were expected to go out of business.

MDE expanded to nation-wide service in 2002, and began offering DSL in mid-2004. Both parties agree that the shift from supplying dial-up to supplying DSL was a “natural and gradual technological evolution” which was necessary for MDE to stay in business. However, this evolution triggered action by Internet Specialties. In 2005, after giving MDE a cease-and-desist letter, Internet Specialties brought suit alleging that MDE’s use of the name “ISPWest” constituted trademark infringement in violation of the Lanham Act, 15 U.S.C. § 1125(a)(1).<sup>1</sup>

The trial was bifurcated. In the first phase, the jury found that MDE had infringed on Internet Specialties’ trademark,

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<sup>1</sup>Section 43(a) of the Lanham Act provides: “Any person who, on or in connection with any goods or services, . . . uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which- (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, . . . shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act.” 15 U.S.C. § 1125(a)(1).

but found no damages from the infringement. In the second phase, the district court ruled that MDE did not have a laches defense to the action. Accordingly, the court issued an injunction against the use of the name ISPWest.

MDE moved for a new trial that the district court denied. MDE appeals the jury's findings, the district court's findings, and the scope of the injunction.

## II. JURISDICTION

The district court had jurisdiction pursuant to 28 U.S.C. §1331 and §1338. The district court entered its Judgment and Permanent Injunction on November 14, 2006. The district court denied MDE's motion for a new trial on December 18, 2006. The Notice of Appeal was timely filed on January 17, 2007. This court has jurisdiction under 28 U.S.C. §1291.

## III. ANALYSIS

### A. Jury Instruction 18.15

First we consider MDE's contention that jury instruction 18.15 was improper and prejudiced the jury in favor of Internet Specialties on its trademark infringement claim. We review de novo a district court's statement of the law, but its formulation of the instructions for abuse of discretion. *Medtronic, Inc. v. White*, 526 F.3d 487, 493 (9th Cir. 2008) ("We review de novo whether the instructions misstated the law. We review a district court's formulation of jury instructions in a civil case for abuse of discretion.") (internal quotation marks omitted). We hold that instruction 18.15 correctly states the law and is appropriately formulated.

[1] Jury instruction 18.15 followed the Model Civil Instructions by identifying the elements of trademark infringement, and by listing the eight *Sleekcraft* factors under the element of likelihood of confusion. *See, e.g., AMF Inc. v. Sleekcraft*

*Boats*, 599 F.2d 341 (9th Cir. 1979). After listing these factors, however, 18.15 departed from the Model Instructions by stating the following:

In an Internet case such as this one, the law considers three of these factors to be of greatest importance: (i) similarity of plaintiff's and defendant's mark; (ii) relatedness of services; and (iii) simultaneous use of the Internet as a marketing channel.

Therefore, if you find that the names "ISWest" and "ISPWest" are confusingly similar, and that the services offered by the plaintiff and defendant are related, and that both the plaintiff and the defendant use the Internet as a marketing channel, then you should find that the plaintiff has proven there is a likelihood of confusion as I have instructed you unless you find that the remaining factors weigh strongly in the defendant's favor.

This instruction is an accurate reflection of the law of our circuit, which places greater import on the "Internet Troika" factors in internet cases. *Interstellar Starship Svcs., Ltd. v. Epix, Inc.*, 304 F.3d 936, 942 (9th Cir. 2002); *GOTO.com, Inc. v. Disney*, 202 F.3d 1199, 1205 (9th Cir. 2000). The instruction did not, as MDE contends, mislead the jury as to the source of these factors; the phrase "three of these factors" clearly refers to the eight *Sleekcraft* factors discussed immediately prior to the sentence at issue. Finally, the phrase "as I have instructed you", taken in context, was not an attempt to direct the jury to find for the plaintiff. Instead, it merely refers back to the judge's preceding instructions on the likelihood of confusion.

[2] Therefore, we reject MDE's claim that jury instruction 18.15 was improper. Accordingly, we do not need to consider Internet Specialties' assertion that MDE failed to preserve this issue for appeal.

## B. Laches

[3] Next, we turn to whether the district court erred in determining that laches did not bar Internet Specialties' trademark infringement claim. Laches is an equitable defense to Lanham Act claims. *GOTO.com*, 202 F.3d at 1209. This defense embodies the principle that a plaintiff cannot sit on the knowledge that another company is using its trademark, and then later come forward and seek to enforce its rights. *Grupo Gigante S.A. de C.V. v. Dallo & Co.*, 391 F.3d 1088, 1102-03 (9th Cir. 2004).

[4] The test for laches is two-fold: first, was the plaintiff's delay in bringing suit unreasonable? Second, was the defendant prejudiced by the delay? *Jarrow Formulas, Inc. v. Nutrition Now, Inc.*, 304 F.3d 829, 838 (9th Cir. 2002); *Tillamook Country Smoker, Inc. v. Tillamook County Creamery Association*, 465 F.3d 1102, 1108 (9th Cir. 2006). As to whether Internet Specialties was diligent, we must first decide whether it filed suit within the applicable four-year statute-of-limitations period, thereby creating a presumption against laches.<sup>2</sup> See *Jarrow*, 304 F.3d at 835-36 ("If the Plaintiff filed suit within the analogous limitations period, the strong presumption is that laches is inapplicable. However, if suit is filed outside of the analogous limitations period, courts often have presumed that laches is applicable.") The parties dispute the correct starting date for the laches period. The district court found in favor of Internet Specialties, holding that the period started in 2004 when MDE began offering DSL, rather than in 1998 when Internet Specialties gained actual knowledge of MDE's existence.

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<sup>2</sup>"[A] laches determination is made with reference to the limitations period for the analogous action at law." *Jarrow*, 304 F.3d at 835. Neither party disputes the imputation of the four-year limitations period from California trademark infringement law, and we agree that this was the correct period to use.

There is an intracircuit conflict about the correct standard of review for a district court's determination of the starting date for laches. In *Jarrow*, the appellate court reviewed the laches determination as a whole, including the starting date, under a clear error/abuse of discretion hybrid (discussed below). 304 F.3d at 833-34; *see also Grupo Gigante*, 391 F.3d at 1102 (applying hybrid review from *Jarrow* to entire laches review). However, a more recent case held that a district court's decision on the narrow issue of the starting date is reviewed *de novo*, while giving deference to the ultimate decision on whether laches applied. *Tillamook*, 465 F.3d at 1109 ("In an analogous circumstance, the question of when the statute of limitations begins to run for an action at law is reviewed *de novo*. *De novo* review is thus appropriate here.") We need not resolve this inconsistency because we would reach the same result under either standard of review.

[5] The limitations period for laches starts when the plaintiff "knew or should have known about its potential cause of action." *Tillamook*, 465 F.3d at 1108; *see also Jarrow*, 304 F.3d at 838. In this case, the potential cause of action was a trademark infringement claim. The essence of such a claim centers on the likelihood of confusion between two marks or products. *GOTO.com, Inc. v. Disney*, 202 F.3d 1199, 1205 (9th Cir. 2000) ("The likelihood of confusion is the central element of trademark infringement."); *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1053 (9th Cir. 1999) ("The core element of trademark infringement is the likelihood of confusion."). Thus, the question is when Internet Specialties knew or should have known about the likelihood of confusion between its mark and MDE's mark.

[6] On this issue, we disagree with the district court. While it is true that MDE did not offer DSL in 1998, both companies did offer internet access, e-mail, and web hosting in the same geographic area under remarkably similar names. A prudent business person should recognize the likelihood of confusion

to consumers under such circumstances as existed in 1998. Therefore, we find that the laches period started in 1998. Accordingly, the presumption of laches does apply, because Internet Specialties did not file suit until after the four-year period had expired.

This, however, does not end the inquiry. We must still decide whether laches precludes Internet Specialties' claim, bearing in mind the presumption in favor of laches. In our circuit, we apply a "hybrid" standard of review in this circumstance, reviewing de novo whether laches is a valid defense to a particular action, but reviewing the district court's application of the laches factors for abuse of discretion. *Jarrow*, 304 F.3d at 834; *Grupo Gigante*, 391 F.3d at 1101; *Tillamook*, 465 F.3d 1109.

[7] The district court appropriately applied the six "*E-Systems* factors" in its laches review.<sup>3</sup> We take issue only with its decision regarding the second factor: plaintiff's diligence in enforcing its mark. Internet Specialties knew, or should have known, about the likelihood of confusion between the domain names "ISWest.com" and "ISPWest.com" in 1998. Its argument that MDE "progressively encroached" on its market when it shifted from offering dial-up access to DSL access is without merit. Offering DSL was not an expansion into a new market, but rather a natural growth of its existing business. "A junior user's growth of its existing business and the concomitant increase in its use of the mark do not constitute progressive encroachment." *Tillamook*, 465 F.3d 1110. In *Grupo Gigante*, we rejected a progressive encroachment argument where the plaintiff knew of the potential conflict several years

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<sup>3</sup>The six factors are: "1) the strength and value of trademark rights asserted; 2) plaintiff's diligence in enforcing mark; 3) harm to senior user if relief denied; 4) good faith ignorance by junior users; 5) competition between senior and junior users; and 6) extent of harm suffered by junior user because of senior user's delay." *E-Systems, Inc. v. Monitek, Inc.*, 720 F.2d 604, 607 (9th Cir. 1983).

before bringing suit; the fact that it chose to wait until the conflict was actual, versus potential, was not an excuse and did not constitute progressive encroachment. 391 F.3d at 1103. The same reasoning applies here. Internet Specialties was not entitled to wait until MDE's business grew large enough to constitute a real threat, and then sue for trademark infringement. Therefore, we find that the district court erred in its conclusion that Internet Specialties was diligent, the second *E-Systems* factor.

However, MDE must still satisfy the second prong of the laches test: prejudice resulting from Internet Specialties' unreasonable delay in bringing suit. *See Jarow*, 304 F.3d at 839 (holding that after a finding of unreasonable delay, laches would not apply unless defendant also demonstrated prejudice). The dissent views this as an open-and-shut case of prejudice, because MDE "continued to build a valuable business around its trademark during the time that the plaintiff delayed the exercise of its legal rights." Dissent p. 3420, quoting *Grupo Gigante*, 391 F.3d at 1105. The dissent would hold that the expansion from 2,000 customers to 13,000 customers, along with the accompanying sales and expenses, constitutes prejudice. Dissent p. 3421.

[8] While we are sympathetic to MDE's position, the meaning of prejudice in this context is not so simple. "If this prejudice could consist merely of expenditures in promoting the infringed name, then relief would have to be denied in practically every case of delay." *Tisch Hotels, Inc. v. Americana Inn, Inc.*, 350 F.2d 609, 615 (7th Cir. 1965). Laches is meant to protect an infringer whose efforts have been aimed at "build[ing] a valuable business *around its trademark*" and "an important reliance *on the publicity of [its] mark*." 6 McCarthy on Trademarks and Unfair Competition § 31:12 (citations omitted) (emphases added). Therefore, we feel compelled to analyze whether MDE's claim of prejudice is based on "mere[] expenditures in promoting the infringed name," *Tisch Hotels*, 350 F.2d at 615, or whether it is based on an

investment in the mark ISPWest as the identity of the business in the minds of the public. *See Jarrow*, 304 F.3d 835-36 (finding prejudice where had the plaintiff “filed suit sooner, [the infringer] could have invested resources in an alternative identity . . . in the minds of the public.”)

[9] We find that the district court’s opinion, to which we owe some deference under the abuse of discretion standard, answers this question. The district court held that MDE did not demonstrate prejudice from Internet Specialties’ delay in bringing suit, because MDE did not spend the time in the interim developing brand recognition of its mark. The uncontested evidence at trial showed that the vast majority of MDE’s advertising took the form of “pay-per-click” advertisements, through which potential customers are funneled to MDE’s website based on their interest in a particular type of service (i.e., internet services in Southern California). Such advertising creates little to no brand awareness. Furthermore, MDE typically did not even include the name ISPWest in the pay-per-click advertisements.<sup>4</sup> It is a simple premise that MDE cannot create “public association” between ISPWest and the company if it does not even use the ISPWest mark in its most prevalent form of advertising.

It is true, as the dissent points out, that MDE’s customers will be forced to change their e-mail addresses, and that now 13,000 people must change, as opposed to 2,000. However, the district court found that MDE had not shown that it would have to undertake significant advertising expenditures to change its name at this juncture. To the contrary, the evidence showed that MDE had successfully changed its name in the past, that internet service providers frequently change their names due to consolidations and mergers, and that the additional costs of registering a new domain name are minimal.

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<sup>4</sup>For example, in 7,592 Yahoo! pay-per-click ads, MDE only used the name ISPWest 18 times.

We do not think that our view of prejudice constitutes a defiance of circuit precedent, as the dissent characterizes it. Our laches cases have consistently included an analysis of whether, during plaintiff's delay in bringing suit, the infringer developed an identity as a business based on its mark. For instance, in *Jarrow Formulas*, plaintiff Jarrow challenged certain health claims on defendant Nutrition Now's product, a health supplement called PB8. *Jarrow*, 304 F.3d 829, 832. Jarrow argued the health claims were false and misleading advertising under the Lanham Act, but we held that Jarrow's suit was barred by laches. Our finding of prejudice expressly rested on the public association that Nutrition Now had built between the health claims and its product.

Nutrition Now has closely tied the challenged claims to PB8 since initial distribution in 1985. Nutrition Now has always prominently displayed the claims on PB8's product label. Nutrition Now has also used the claims as a central part of its extensive marketing campaign . . . At bottom, Nutrition Now has invested enormous resources in trying PB8's identity to the challenged claims.

*Id.* at 839. Thus, *Jarrow's* analysis of prejudice probed deeper than simply whether Nutrition Now had spent money expanding its business. We are compelled to do the same.

Similarly, our holding in *Grupo Gigante* was that a defendant can show prejudice "by proving that it has continued to build a valuable business *around its trademark* during the time that the plaintiff delayed the exercise of its legal rights." 391 F.3d at 1105, emphasis added. We found that the defendant was prejudiced where it had operated two grocery stores, with the infringing name prominently displayed at the entrance, for four years after plaintiff discovered the infringement. *Id.* There is a significant difference between the public association of a grocery store and its name, versus the public association of MDE and ISPWest. A grocery store's very

identity rests in its name. MDE failed to show at trial that its identity had much at all to do with the mark ISWest, inasmuch as MDE did not rely on its mark to attract customers.

[10] In conclusion, we find no error or abuse of discretion in the district court's finding that MDE was not prejudiced within the meaning of a trademark infringement claim. Thus, laches does not bar Internet Specialties lawsuit.

### C. Scope of the Injunction

[11] Finally, we must decide whether the district court's injunction is overbroad. We review a district court's grant or denial of an injunction, as well as the scope of the injunction, for abuse of discretion. *E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1296 (9th Cir. 1992); *Scott v. Pasadena Unified School Dist.*, 306 F.3d 646, 653 (9th Cir. 2002).

Under the district court's order, MDE is enjoined from:

[u]tilizing any of ISWest's marks or any variation, derivative, or shorthand notation thereof, or any terms similar thereto, including ISWest, in connection with any product or service, or sham products or services, in any medium, which would give rise to a likelihood of confusion as to the source of such products or services.

MDE contends that even if it cannot use its mark to market DSL services, it should not be prohibited from using it to market its other services which did not prompt Internet Specialties' lawsuit. We find the scope of the injunction appropriate. The essence of trademark infringement is the likelihood of confusion, and an injunction should be fashioned to prevent just that.<sup>5</sup> We find no abuse in the district court's determina-

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<sup>5</sup>The likelihood of confusion to consumers is the critical factor in our consideration of both laches and the breadth of the injunction. The public

