

# The Trademark Reporter®

Official Journal of the International Trademark Association



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**CENTURY 21, THE NEW KID IN TOWN:  
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NEW NOMINATIVE FAIR USE TEST**

*By Baila H. Celedonia\* and Kieran Doyle\*\**

**I. INTRODUCTION**

The concept of fair use in copyright law is well known to intellectual property practitioners. An analogous concept exists in trademark law, where the use of another's trademark may under certain circumstances be deemed "fair" use. As in copyright law, the public benefit of allowing the use is perceived to override any alleged detriment to the trademark owner, and is thus deemed to be fair use.

The Lanham Act contains a statutory fair use provision, 15 U.S.C. § 1115(b)(4). However, because of the narrow scope of the provision, three additional and closely related, judge-made categories have arisen in which use of another's trademark may be considered non-infringing.<sup>1</sup> One of these is nominative fair use.

The term "nominative fair use" was coined by the Ninth Circuit Court of Appeals in 1992. Since then, courts faced with a defendant's referential or nominative use of another's trademark would invoke the Ninth Circuit's three-part nominative fair use test and apply that test with various minor modifications. In 2004, the Supreme Court, in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*,<sup>2</sup> confirmed that statutory fair use is an affirmative defense to be evaluated only after a plaintiff has successfully made a showing of a likelihood of confusion. Then, in 2005, the Third Circuit Court of Appeals established an altogether new nominative fair use analysis based, in part, on the logic of *KP*

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1. The three categories are: (1) nominative fair use; (2) comparative fair use; and (3) parody.

2. 543 U.S. 111 (2004).

*Permanent Make-Up*. While this analysis was to some extent also modeled on the Ninth Circuit's test established in *New Kids on the Block v. News America Publishing, Inc.*,<sup>3</sup> there are significant differences between the two.

This article provides a brief overview of statutory fair use, then examines in detail the nominative fair use defense and the divergent application and analysis of this defense by the Ninth and Third Circuits.

## II. STATUTORY FAIR USE

Pursuant to 15 U.S.C. § 1115(b)(4) of the Lanham Act, a defense to a claim of trademark infringement exists where:

the use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark . . . or of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin.<sup>4</sup>

In general terms, the statutory fair use defense prevents a trademark owner from monopolizing or appropriating a descriptive word or phrase. In a leading case on this defense, *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*,<sup>5</sup> the court noted that “[t]he defense is available only in actions involving descriptive terms and only when the term is used in its descriptive sense rather than its trademark sense.”<sup>6</sup>

The purpose of the statutory fair use defense is to allow third parties to accurately describe their goods.<sup>7</sup> Because the use is “otherwise than as a mark,” the “fair use” of someone else’s trademark in this manner should not be likely to cause confusion. Nevertheless, the Supreme Court recently clarified that the statutory fair use defense remains available even in the face of some likelihood of confusion.

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3. 971 F.2d 302 (9th Cir. 1992).

4. 15 U.S.C. § 1115(b)(4).

5. 698 F.2d 786 (5th Cir. 1983).

6. *Id.* at 791 (citing *Soweco, Inc. v. Shell Oil Co.*, 617 F.2d 1178, 1185 (5th Cir. 1980)).

7. *Sunmark, Inc. v. Ocean Spray Cranberries, Inc.*, 64 F.3d 1055 (7th Cir. 1995) (use of the term “sweet-tart” in advertising and promotion for cranberry juice drinks found to be descriptive of such juices, which are both sweet and tart; ads were held to be fair use and not infringing of mark SweetTARTS for candy); *Microwave Sys. Corp. v. Apple Computer, Inc.*, 126 F. Supp. 2d 1207 (S.D. Iowa 2000) (notwithstanding plaintiff’s rights in “OS-9,” defendant’s use of “MAC OS 9” was fair use because “OS” was an acronym for “operating system” and defendant’s most recent series of products were named OS 7.6, OS 8, OS 8.1, OS 8.5 and OS 8.6).

### III. STATUTORY FAIR USE: A TRUE DEFENSE?

Until recently, there was a split between those courts of appeals that held that a likelihood of confusion bars the statutory fair use defense and those that held that it did not. On December 8, 2004, the U.S. Supreme Court held that a finding of likelihood of confusion is not necessarily a bar to the statutory fair use defense and that the burden is on the plaintiff to prove a likelihood of confusion rather than on the defendant pleading the fair use defense to negate a likelihood of confusion.

In *KP Permanent Make-Up v. Lasting Impressions, Inc.*,<sup>8</sup> the parties sold permanent makeup that was injected under the skin. The plaintiff owned an incontestable federal trademark registration for the mark MICRO COLORS in white letters separated by a green bar all contained within a black box. The defendant used the term “micro color” on advertising material and pigment bottles. The plaintiff sued, alleging that the defendant was infringing the plaintiff’s MICRO COLORS trademark. The district court granted the defendant’s motion for summary judgment on the statutory fair use affirmative defense. The court based its holding on the findings that (i) the plaintiff had conceded that the defendant had used the term “micro color” only to describe its goods and not as a mark, and (ii) the defendant had acted fairly and in good faith. In reaching its decision, the district court did not examine whether the defendant’s use of “micro color” was likely to cause confusion.

The Ninth Circuit reversed, finding that the district court had erred in considering the fair use defense without also considering whether consumers would be confused by the defendant’s use of “micro color” for the same goods with which the plaintiff used its MICRO COLORS mark. The Ninth Circuit took the position that the use of a term could not possibly be fair if there is a likelihood of consumer confusion arising from such use.

The Supreme Court granted the defendant’s petition for *certiorari*<sup>9</sup> to address the split among the circuits. In vacating the Ninth Circuit decision,<sup>10</sup> the Court first examined the language of 15 U.S.C. § 1114, the Lanham Act provision that creates a statutory cause of action for infringement of registered trademarks. This section requires the plaintiff to show that the defendant’s actions are likely to confuse consumers as to the source or origin of the goods or services at issue. The Court then examined the statutory fair use defense language of 15 U.S.C. § 1115(b)(4). It recognized that the Lanham Act places on a plaintiff

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8. 328 F.3d 1061 (9th Cir. 2001).

9. 540 U.S. 1099 (2004).

10. 543 U.S. 111 (2004).

the burden of establishing a likelihood of confusion as a critical element of its *prima facie* case. The fair use language on the other hand, makes no mention of likelihood of confusion. The Court concluded that, as a drafting matter, it was not the intent of Congress to place on the defendant the burden of negating confusion when pleading the fair use defense.

Moreover, the Court recognized that, as a practical matter, even absent the statutory defense, a defendant would prevail if the plaintiff failed to satisfy its burden of proving likelihood of confusion. The Court noted that “it is only when a plaintiff has shown likely confusion by a preponderance of the evidence that a defendant could have any need of an affirmative defense.”<sup>11</sup> Thus, to be of any relevance in the statutory scheme of the Lanham Act, the statutory fair use defense would have to be available despite a finding of a likelihood of confusion.

That, however, does not mean that likelihood of confusion is irrelevant in determining whether a defendant’s use constitutes a fair use under the Lanham Act. The Supreme Court left the door open on this point by clarifying that its holding should not preclude a court from considering the *extent* of any likelihood of confusion in assessing whether a defendant’s use was objectively fair. Therefore, a defendant arguing that its use is a fair use may still have to show that any likelihood of confusion is not significant. As a practical matter, while the degree of likely confusion may be cited in future cases as supporting or undermining the fair use defense, it is doubtful that such consideration will be outcome-determinative. This is because in trademark cases, courts so often appear to first determine which party should prevail, and then apply the likelihood of confusion test in such a way as to reach the desired result. The *KP Permanent Make-Up* case leaves courts sufficient latitude to reach the conclusions they consider just, while following the required tests to determine fair use and likelihood of confusion.

On remand, the Ninth Circuit Court of Appeals accepted the Supreme Court’s invitation and held that “[t]he degree of customer confusion remains a factor in evaluating fair use.”<sup>12</sup> Because likelihood of confusion will apparently continue to be a factor in measuring fair use, and because “determining whether a likelihood of confusion exists at the summary judgment stage is generally

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11. *KP Permanent Make-Up*, 543 U.S. at 120. While the Court did not address fair use in the context of claims brought under Section 43(a) of the Lanham Act for infringement of common law trademarks, this decision provides clear guidance to courts faced with a fair use defense in the Section 43(a) context.

12. *KP Permanent Make-Up v. Lasting Impression I, Inc.*, 408 F.3d 596, 609 (9th Cir. 2005).

disfavored,”<sup>13</sup> the value of the statutory fair use defense as a tool for early disposal of trademark claims may be limited.<sup>14</sup> The Ninth Circuit made this clear when it held that summary judgment on the fair use defense was improper and specifically listed the degree of likely confusion among the genuine issues of material fact.<sup>15</sup>

#### IV. NOMINATIVE USE AS FAIR USE

Unlike statutory fair use cases, nominative fair use involves the descriptive use of the plaintiff's mark *to describe or identify the plaintiff's goods or services*. While the term “nominative fair use” and a formal three-part nominative fair use test both originated in a 1992 Ninth Circuit case, one year earlier, the First Circuit relied on the nominative fair use concept in finding for a defendant. Although it was decided as a statutory and/or common law fair use case before the Ninth Circuit articulated the defense and coined the term, *WCVB-TV v. Boston Athletic Association*<sup>16</sup> is more logically a nominative fair use case. This decision involved the use of the registered trademark BOSTON MARATHON by a television station in connection with its coverage of the race. WCVB-TV displayed the words “Boston Marathon” on the screen before, during, and after its television coverage of the marathon. The First Circuit found that the fair use defense was properly asserted, reasoning that the trademark was used primarily in a descriptive manner. Because of the “timing, meaning, context, intent, and surrounding circumstances,” there was no likelihood of confusion. The court concluded that without allowing others to use the term “Boston Marathon,” it would be virtually impossible to describe the Boston Marathon.<sup>17</sup>

[T]he words “Boston Marathon” . . . do more than call attention to Channel 5's program; they also *describe* the event that Channel 5 will broadcast. Common sense suggests (consistent with the record here) that a viewer who sees those words flash upon the screen will believe simply that Channel 5 will show, or is showing, or has shown, the marathon, not that Channel 5 has some special approval from the [trademark holder] to do so. In technical trademark jargon, the use of

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13. *Id.* at 608

14. *Ty, Inc. v. Publ'ns Int'l, Ltd.*, 2005 U.S. Dist. LEXIS 23420 at 27 n.10 (N.D. Ill. 2005) (“[w]hile I firmly believe that the likelihood of confusion and nominative fair use analysis are conceptually distinct, I also believe that the standard for granting summary judgment would likely be the same under both analyses.”).

15. *KP Permanent Make-Up*, 408 F.3d at 608.

16. 926 F.2d 42 (1st Cir. 1991).

17. *Id.* at 46.

words for descriptive purposes is called a “fair use,” and the law usually permits it even if the words themselves also constitute a trademark.<sup>18</sup>

In 1992, the Court of Appeals for the Ninth Circuit gave a name to this type of fair use—“[n]ominative.”<sup>19</sup> In a typically articulate opinion, Judge Kozinski, in *New Kids on the Block v. News America Publishing*,<sup>20</sup> described those circumstances in which the use of another’s trademark is allowed, even when not directly covered by the statutory fair use defense of the Lanham Act:

[W]here the defendant uses a trademark to describe the plaintiff’s product, rather than its own, we hold that a commercial user is entitled to a nominative fair use defense provided he meets the following three requirements: First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.<sup>21</sup>

*New Kids* involved a balancing of the plaintiffs’ rights in the name of their pop music group, and the rights of the defendants to use that name to identify the group as the subjects of public opinion polls. The defendants, two newspapers, separately polled their readers by asking which “New Kid” was their favorite or which “New Kid” was the cutest, with voting done via “900” telephone numbers, which generated revenue for the newspapers. The newspapers advertised these polls using a picture of the group members and THE NEW KIDS ON THE BLOCK trademark.

The group filed suit and alleged trademark infringement by the newspapers through the use of the NEW KIDS ON THE BLOCK mark in association with the advertisements for the polls. The district court granted summary judgment to the defendants on First Amendment grounds. On appeal, however, the Ninth Circuit found it unnecessary to reach the constitutional issue and instead articulated (and named) the nominative fair use defense.

Much as the statutory fair use defense of the Lanham Act is aimed at protecting a competitor’s ability to simply describe its own product, the nominative fair use defense allows a third party

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18. *Id.*

19. 971 F.2d 302 (9th Cir. 1992).

20. *Id.*

21. *Id.* at 308.

fairly to describe another's product without resorting to "absurd turns of phrase to avoid use of the mark."<sup>22</sup> As Judge Kozinski noted, if a law suit resulted every time someone's trademark was referred to, then a valuable social and commercial means of communication would be lost.

Such *nominative use* of a mark—where the only word reasonably available to describe a particular thing is pressed into service—lies outside the strictures of trademark law: *Because it does not implicate the source-identification function that is the purpose of trademark, it does not constitute unfair competition; such use is fair because it does not imply sponsorship or endorsement by the trademark holder.*<sup>23</sup>

The *New Kids* opinion distinguished the "classic fair use case where the defendant has used the plaintiff's mark to describe the defendant's *own* product" from those in which a defendant used a plaintiff's mark as a trademark to refer to the plaintiff or its goods or services.<sup>24</sup> However, *New Kids* noted that other courts had often found fair use in just such situations.<sup>25</sup>

Cases like these are best understood as involving a non-trademark use of a mark—a use to which the infringement laws simply do not apply, just as videotaping television shows for private home use does not implicate the copyright holder's exclusive right to reproduction.<sup>26</sup>

As the Ninth Circuit explained in *New Kids*, rather than being a truly new defense, "nominative fair use" is a consolidation of the rationale of these previous cases, which dealt with use of a plaintiff's mark to describe the plaintiff.

The Ninth Circuit revisited its nominative fair use defense in *Abdul-Jabbar v. GMC*.<sup>27</sup> GMC produced a television commercial that asked the question, "Who holds the record for being voted the most outstanding player of [the NCAA] tournament? . . . Lew Alcindor, UCLA, '67, '68, '69."<sup>28</sup> The commercial continued by

22. *Id.* at 306-07. Judge Kozinski stressed the need of persons and businesses to be able to accurately identify another party's product.

23. *Id.* at 308 (emphasis added).

24. *Id.*

25. *WCVB-TV*, 926 F.2d 42 (use of BOSTON MARATHON, discussed above); *Volkswagenwerk Aktiengesellschaft v. Church*, 411 F.2d 350 (9th Cir. 1969) (automobile repair shop could use VOLKSWAGEN mark to communicate the kind of cars it repairs, so long as it did not suggest authorization or sponsorship); and *Universal City Studios, Inc. v. Ideal Publ'g Corp.*, 195 U.S.P.Q. 761 (S.D.N.Y. 1977) (magazine could use television program's trademark HARDY BOYS in association with a photograph of the show's stars).

26. *New Kids*, 971 F.2d at 307.

27. 85 F.3d 407 (9th Cir. 1996).

28. *Id.* at 409.

stating that the Oldsmobile Eighty-Eight won an “award” three years in a row, and like the basketball star, the car is a “champ” and a “first round pick.”

The Ninth Circuit held that the defendant had met the first two prongs of the nominative fair use test: Lew Alcindor could not readily be identified without using his name, and GMC used the name only to the extent necessary to identify him. The Ninth Circuit reversed the district court’s grant of summary judgment. However, as to the third prong of the test, the court held that because celebrity endorsements had become an established means of doing business, a jury could reasonably find that the use of Lew Alcindor’s name in the commercial implied endorsement.<sup>29</sup>

Most nominative fair use cases have been decided in the Ninth Circuit. Elsewhere, the nominative fair use defense has been used sparingly, but it has gained acceptance in recent years in other circuits.<sup>30</sup> Since it was first enunciated, the requirements for successfully invoking this defense also have been clarified by the courts.

Just as the defendant who seeks the protection of the statutory fair use defense will enjoy greater success if it does not use the mark/descriptive term too prominently, restraint in use of the mark at issue favors the nominative fair use defendant as well.<sup>31</sup> Disclaimers can also help a defendant pleading nominative fair use:<sup>32</sup> those who do not disclaim or clarify may lose<sup>33</sup> and that

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29. *Id.* at 413.

30. For example, in a case decided shortly after *New Kids*, the district court in *National Football League Props. v. Playoff Corp.*, 808 F. Supp. 1288, 1293 (N.D. Tex. 1992), which dealt with the use of NFL trademarks appearing on the uniforms of players pictured on trading cards, acknowledged that the statutory fair use defense was unavailable, but declined to adopt the Ninth Circuit’s rationale in *New Kids*, holding that it was up to the Fifth Circuit Court of Appeals to adopt such a rationale. The Fifth Circuit has since recognized the defense. *See, e.g., Pebble Beach Co. v. Tour 18 I, Ltd.*, 155 F.3d 526 (5th Cir. 1998). In the Second Circuit, the *New Kids* nominative fair use defense was recognized, but not successfully invoked in *Nasdaq Stock Mkt., Inc. v. Archipelago Holdings, LLC*, 336 F. Supp. 2d 294 (S.D.N.Y. 2004).

31. *Toho Co., Ltd. v. William Morrow & Co., Inc.*, 33 F. Supp. 2d 1206 (C.D. Cal. 1998) (holding that nominative fair use test cannot be satisfied where defendant publisher of book about Godzilla series of films had depicted GODZILLA mark on cover of book in “bold orange lettering prominently displayed.”); *Pebble Beach Co. v. Tour 18 I, Ltd.*, 155 F.3d 526 (5th Cir. 1998) (citing defendant’s prominent use of plaintiff’s marks on defendant’s menus, signs, scorecards and advertising and promotional material as basis for concluding that nominative fair use defense was not available).

32. *Volkswagenwerk Aktiengesellschaft v. Church*, 411 F.2d 350, 352 (9th Cir. 1969) (permitting repair shop to advertise its ability to repair VOLKSWAGEN vehicles, in part, because it made clear through disclaimers that it was not official or authorized repair shop); *Playboy Enters., Inc. v. Terri Welles, Inc.*, 78 F. Supp. 2d 1066 (S.D. Cal. 1999) (finding fair use and noting with approval defendant’s frequent use of disclaimers on her website).

33. *PACCAR Inc. v. Telescan Techs, L.L.C.*, 319 F.3d 243 (6th Cir. 2003) (distinguishing Telescan’s conduct from conduct of *Volkswagen* defendant to extent Telescan had not made it clear to visitors to its website that it was “independent” of plaintiffs);

some re-sellers of a trademark owner's goods have successfully invoked the fair use defense.<sup>34</sup>

Nevertheless, for courts applying the *New Kids* test, it remains unclear whether the nominative fair use defense is a substitute for a multi-pronged likelihood of confusion test,<sup>35</sup> or whether the *New Kids* three-part test actually incorporates the traditional likelihood of confusion test.<sup>36</sup>

In *Playboy Enterprises, Inc. v. Terri Welles, Inc.*, a California district court found for the defendant under both the statutory and nominative fair use defenses. In its decision, the court wrote, "Under the *New Kids* standard, a court does not reach the question of likelihood of confusion, apart from any analysis of a likelihood of confusion that is implied in the third *New Kids* prong."<sup>37</sup> When addressing the third prong, the *Playboy* court did not engage in a multi-prong likelihood of confusion analysis, but simply noted that the defendant had done nothing to imply or suggest sponsorship or endorsement by Playboy and had, in fact, posted disclaimers on her website. The California district court in *Toho Co. v. William Morrow & Co.*, however, took a very different approach. When it reached the third prong of the *New Kids* test, it described the issue at hand as "whether a reasonable consumer of average intelligence and experience would be confused as to the source' of the product."<sup>38</sup> Having defined the issue that way, the court conducted an eight-step likelihood of confusion analysis. In the authors' view,

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*Brookfield Comm'ns v. West Coast Entm't Corp.*, 174 F.3d 1036 at 1065-66 (in applying statutory fair use test, court contrasted defendant's failure to include disclaimers on its website with *Playboy* defendant's diligent inclusion of disclaimers on her website); *Sunsport, Inc. v. Barclay Leisure Ltd.*, 984 F. Supp. 418 (E.D. Va. 1997) (court held that fair use defense was not available because alleged infringer did not use disclaimer and did not use text to distinguish its products from mark owner's.)

34. See *Trans Union LLC v. Credit Research, Inc.*, 142 F. Supp. 2d 1029 (N.D. Ill. 2001) (use of plaintiff's TRANS UNION mark in metatags was protected by statutory fair use where defendant's credit reports incorporated information gathered from plaintiff's database of credit information pursuant to contract between parties); *but see D 56, Inc. v. Berry's Inc.*, 955 F. Supp. 908 (N.D. Ill. 1997) (while unauthorized sale of plaintiff's goods did not, alone, support trademark infringement claim, use of plaintiff's marks in advertising and promotional material could support such claim even where goods themselves are genuine).

35. *Playboy Enters., Inc. v. Terri Welles, Inc.*, 78 F. Supp. 2d 1066 (S.D. Cal. 1999) (when faced with nominative fair use defense, it is appropriate to substitute the three-part *New Kids* test in place of traditional likelihood of confusion test).

36. *Toho Co., Ltd. v. William Morrow & Co., Inc.*, 33 F. Supp. 2d 1206 (C.D. Cal. 1998) (addressing the third prong of nominative fair use test by applying the eight-factor *Sleekcraft* likelihood of confusion test and finding confusion was likely).

37. *Playboy Enters.*, 78 F. Supp. 2d at 1090. See also *PACCAR, Inc.*, 319 F.3d 243 at 256 (refusing to adopt the *New Kids* test but recognizing that it is intended to be a substitute for the traditional likelihood of confusion test).

38. *Toho Co. Ltd.*, 33 F. Supp. 2d at 1211 (quoting *New West Corp. v. NYM Co.*, 595 F.2d 1194 (9th Cir. 1979)).

this was a misguided undertaking. When applying the third prong of the *New Kids* test, the analysis should focus on actions by the defendant *beyond* the simple use of the plaintiff's mark in the first place. Applying this logic, a court would look beyond the fact that the defendant had used the plaintiff's mark and focus on how the defendant had used that mark.

The Fifth Circuit in *Pebble Beach Co. v. Tour 18 I, Ltd.* held that the *New Kids* three-part test must be applied in conjunction with the multi-pronged likelihood of confusion test because “[t]his right to use a mark to identify the markholder’s products . . . is limited in that the use cannot be one that creates a likelihood of confusion as to source, sponsorship, affiliation, or approval.”<sup>39</sup> Fundamentally, the *Pebble Beach* court viewed nominative use not as a use that gives rise to an affirmative defense or even as a use that calls for the application of a substitute for the likelihood of confusion test, but rather, as a mitigating factor to be considered when deciding how much weight to accord the various likelihood of confusion factors.<sup>40</sup>

## V. CENTURY 21—THIRD CIRCUIT APPLIES *KP PERMANENT MAKE-UP TO THE NOMINATIVE FAIR USE DEFENSE*

By the time the Third Circuit reviewed the nominative fair use defense in *Century 21 Real Estate Corp. v. Lending Tree, Inc.*,<sup>41</sup> the Supreme Court had rendered its decision in *KP Permanent Make-Up*.<sup>42</sup> Shortly after the Supreme Court held that statutory fair use was a true affirmative defense, the Court of Appeals for the Third Circuit, reversing and remanding the district court’s entry of a preliminary injunction in the nominative fair use case and holding that the district court had erred in evaluating the likelihood of confusion, held that the Supreme Court’s *KP Permanent Make-Up* decision—that the likelihood of confusion analysis should be conducted first—applies not only to statutory fair use, but also to nominative fair use.<sup>43</sup> Having extended the *KP Permanent Make-Up* decision to the nominative fair use defense, the majority in

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39. 155 F.3d 526, 546 (5th Cir. 1998).

40. *Id.* at 546-47.

41. 425 F.3d 211 (3d Cir. 2005).

42. *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004).

43. *Id.*

*Century 21* modified the *New Kids* test in three significant ways.<sup>44</sup> First, the court made clear that nominative fair use was an affirmative defense. Second, the court determined that before reaching the issue of whether the use was fair, the plaintiff must first establish that there was a likelihood of confusion through the application of an abbreviated multi-part test. This test is tailored to eliminate those traditional likelihood of confusion factors that are not only unnecessary, but counterproductive to evaluating the likelihood of confusion arising from a nominative use of another's mark. Third, the court modified the *New Kids* three-part nominative fair use test and created a new, slightly different, test for the affirmative defense.

The plaintiff/appellees, Century 21, ERA and Coldwell, were long-established real estate companies that operated through franchisees. The defendant, Lending Tree, operated an online referral business for consumers. It acted as a clearinghouse for individuals interested in "shopping" for the real estate agencies, lenders, insurance companies and other financial service providers that best suited their needs. The consumer would complete online profiles and Lending Tree would provide contact information for up to four providers in a given category from which the consumer could choose.

Those real estate agencies interested in participating in Lending Tree's referral program registered with Lending Tree and accepted referrals of potential buyers or sellers in their geographic market, and in exchange, the real estate agencies would pay a portion of their commission on any resulting transaction. Lending Tree's real estate referral network included over 650 registered real estate agencies. Of these 650 agencies, over 257 were franchisees of one of the plaintiffs, Century 21, Coldwell Banker or ERA. In marketing its services, Lending Tree prominently featured the trademarks of Coldwell Banker, ERA and Century 21, and listed them as companies to which Lending Tree could offer access.

The plaintiffs sued, alleging unfair competition and trademark infringement. The district court granted the plaintiffs' motion for

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44. In a spirited concurrence and dissent, Judge Fisher criticized the majority's two-step nominative fair use analysis. Judge Fisher advocated a policy whereby the plaintiff alone would bear the burden of pleading likelihood of confusion through the application of a test formulated specifically to address nominative trademark use. Once the plaintiff established such likelihood of confusion, the defendant would not have the opportunity to present an affirmative defense of nominative fair use. The concurrence argued that this approach was consistent with "binding case law holding that proper nominative use is use that is not likely to confuse." *Id.* at 232. While appealing in its *internal* constituency and logic, Judge Fisher's arguments were premised on the proposition that trademark fair use is not an affirmative defense. The authors consider this premise inconsistent and irreconcilable with the Supreme Court's holding in *KP Permanent Make-Up*.

preliminary injunction finding that Lending Tree's use of the ERA, Coldwell Banker and Century 21 marks was likely to cause confusion, and rejected Lending Tree's nominative fair use defense. Lending Tree appealed.

The Court of Appeals for the Third Circuit began its legal analysis with a discussion of the Supreme Court's *KP Permanent Make-Up* decision, noting that in the context of the classic, statutory context, fair use was an affirmative defense and that "consumer confusion and fair use are not mutually exclusive."<sup>45</sup>

The court then followed the logic of *KP Permanent Make-Up*. Because of the Supreme Court's holding that statutory fair use was an affirmative defense, the *Century 21* court rejected the Ninth Circuit's view that the nominative fair use test should be a substitute for the likelihood of confusion test. Treating nominative fair use as an affirmative defense, the majority created a new two-step approach to the nominative fair use analysis. First, the plaintiff must establish that confusion is likely through the application of an abbreviated likelihood of confusion test. Only then would the defendant have to establish nominative fair use based on a variation on the *New Kids* three-part test.<sup>46</sup> Though it recognized the need for a likelihood of confusion analysis, the *Century 21* court agreed with the Ninth Circuit's observation that "the likelihood of confusion test as applied in nominative fair use cases would disadvantage the defendant by making confusion an all but foregone conclusion."<sup>47</sup> In response, the Third Circuit Court created a new likelihood of confusion test that excluded, or at least made optional, those elements that would lead to a "false positive" result. Table 1 at the end of this article provides a side-by-side comparison of the traditional Third Circuit likelihood of confusion test, and the test as applied in the nominative fair use context.

The court explained that "by definition, nominative use involves the use of another's trademark in order to describe the trademark owner's *own* product," and if applied mechanically, certain standard factors<sup>48</sup> would point toward confusion where none exists.<sup>49</sup> For example, the court noted that consideration of the degree of similarity between the parties' marks is not helpful because it would "automatically lead to the conclusion that the use is likely to confuse simply because the mark is not merely similar,

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45. *Century 21*, 425 F.3d at 217.

46. *Id.*

47. *Id.* at 220; see *Playboy Enters. Inc. v. Terri Welles, Inc.*, 279 F.3d 796, 801 (9th Cir. 2002).

48. In crafting its likelihood of confusion test, the court started with the Third Circuit's *Lapp* test. *Interpace Corp. v. Lapp, Inc.*, 721 F.2d 460 (3d Cir. 1983).

49. *Century 21*, 425 F.3d at 224.

it is identical.”<sup>50</sup> As the court noted, this factor “does not leave any room for the consideration of the context of the use—*i.e.*, that the mark is being used to describe the plaintiff’s own product.”<sup>51</sup>

Likewise, the court noted that consideration of the strength of the plaintiff’s mark would lead to an inappropriate conclusion because purported nominative fair users “feel they need to use the actual mark to describe the plaintiff’s product *because* of its very strength and what it has come to represent.”<sup>52</sup> As a result, in the nominative fair use context, the Third Circuit removed these two factors from the likelihood of confusion test.

The court advised that other prongs of the likelihood of confusion test could be ignored if the facts before the court rendered those elements irrelevant or inappropriate in light of the specific nominative use at issue. For example, consideration of the channels through which the goods or services are marketed or advertised would often be of little use in nominative fair use cases because it would be expected that the nominative fair use defendant would advertise and market through the same trade channels as the plaintiff. On the other hand, if the channels were different, this could mitigate against confusion and help the defendant.

Just as the court found the channels of trade and promotion to be largely irrelevant in a nominative fair use case, the court observed that it would only make sense that a nominative fair use defendant would sell its goods and render its services to the same consumers as the plaintiff because these are the people who use, recognize and appreciate the plaintiff’s mark. Thus, this factor would be discounted and even disregarded in certain contexts.

The court did not address the last two factors in the Third Circuit’s *Lapp* test, *i.e.*, the relationship of the goods due to their similarity of function and “other factors” that would cause the public to expect that the plaintiff would manufacture products in the defendant’s markets or would likely expand into such markets.

The court specifically identified the following factors as the “essence” of the likelihood of confusion test in the nominative fair use context:

- (1) the price of the goods and other factors indicative of the care and attention expected of consumers when making a purchase;
- (2) the length of time the defendant has used the mark without evidence of actual confusion;

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50. *Id.* at 225.

51. *Id.*

52. *Id.* (emphasis added).

- (3) the intent of the defendant in adopting the mark; and
- (4) the evidence of actual confusion.

The court wrote that application of these four factors will enable the court to assess “the likelihood that a consumer will be confused as to any relationship or affiliation between [the plaintiff and defendant], the heart of the nominative fair use situation.”<sup>53</sup>

Since it is well established that the various prongs of the likelihood of confusion test do not carry equal weight, that the test should not be applied mechanically and that the weight to be given each factor varies depending on the circumstances,<sup>54</sup> the court’s creation of an abbreviated likelihood of confusion test was perhaps, unnecessary. Even without this new abbreviated test, courts would be free to discount, and maybe even disregard, those factors that are largely irrelevant or entirely inapplicable in a given nominative fair use case.<sup>55</sup> However, one could imagine a court’s reluctance to ignore the similarity of the marks at issue or the strength of the plaintiff’s mark without a specific mandate to do so. Ultimately, the *Century 21* court did not simply enable, but rather “embolden,” future courts to ignore or discount those likelihood of confusion factors that are of limited or of no value in a nominative fair use context.<sup>56</sup>

Under this new Third Circuit test, if a likelihood of confusion was established after applying the abbreviated likelihood of confusion test, the court would then apply a modified<sup>57</sup> *New Kids* test to determine whether, notwithstanding a likelihood of

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53. *Id.*

54. *See, e.g.,* Plus Prods. v. Plus Discount Foods, Inc., 722 F.2d 999, 222 U.S.P.Q. 373 (2d Cir. 1983) (“No single Polaroid factor is determinative.”); Piper Aircraft Corp. v. Wag-Aero, Inc., 741 F.2d 925, 223 U.S.P.Q. 202, 208 (7th Cir. 1984) (“None of these factors is determinative. In fact we have reversed lower court decisions that have placed excessive reliance on certain factors.”); Wynn Oil Co. v. Thomas, 839 F.2d 1183, 5 U.S.P.Q.2d 1944 (6th Cir. 1988) (the factors are merely a “guide,” imply “no mathematical precision,” and a plaintiff “need not show that all, or even most, of the factors listed are present in any particular case to be successful”); Pebble Beach Co. v. Tour 18 I, Ltd., 155 F.3d at 546 (likelihood of confusion factors are merely guides on the route to determination of whether confusion is likely).

55. Courts within the Third Circuit have been instructed by the *Century 21* court to exclude the first two *Lapp* factors for their analysis.

56. The *Century 21* court explained that the Supreme Court’s reversal of Ninth Circuit law on the statutory fair use in *KP Permanent Make-Up* “emboldened” it to re-evaluate and modify the *New Kids* three-part test. *Century 21*, 425 F.3d at 228.

57. *Century 21*, 425 F.3d at 228. For ease of comparison, and by way of review, the *New Kids* test requires a defendant to prove that: (1) the product or service in question is one not readily identifiable without use of the trademark; (2) only so much of the mark or marks is used as is reasonably necessary to identify the product or service; and (3) the user did nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder. *New Kids on the Block*, 971 F.2d at 308.

confusion, the defendant's use of the plaintiff's mark is fair. Under the Third Circuit's nominative fair use test, the court must ask:

1. Is the use of plaintiff's mark necessary to describe (1) plaintiff's product or service and (2) defendant's product or service?
2. Is only so much of the plaintiff's mark used as is necessary to describe plaintiff's products or services?
3. Does the defendant's conduct or language reflect the true and accurate relationship between plaintiff's and defendant's products or services?<sup>58</sup>

Table 2 at the end of this article provides a side-by-side comparison of the *Century 21* three-part test and the *New Kids* three-part test.

While the first prong of the Third Circuit's test appears to be more stringent than the *New Kids* test, as it asks whether use of the plaintiff's mark is "necessary," the *Century 21* court tempered this requirement when it wrote, "[T]he court need not find that the use of the mark is indispensable in order to find this factor fulfilled. For, as we have stated before, the Lanham Act does not compel a competitor to resort to second-best communication."<sup>59</sup> Further clarifying, the court explained that the use of a mark would be considered "necessary" under this test if reference to the plaintiff's product would be significantly more difficult without the use of the mark.<sup>60</sup>

The second prong of the *Century 21* test is nearly identical to the second prong of the *New Kids* test. This second prong merely clarifies the second prong of *New Kids*, which was intended to ask whether the defendant has used only so much of the plaintiff's mark as is necessary to identify the plaintiff's goods or services.

The greatest difference between the two tests rests in the third prongs of each. While the *New Kids* test questions whether the defendant did anything beyond mere use of the mark that would suggest sponsorship or endorsement by the plaintiff, the Third Circuit test asks whether the defendant's conduct and language reflect the true and accurate relationship between the plaintiff's and defendant's product or services. Whether the differences in the tests would result in a court reaching a different conclusion in any particular case, however, is doubtful.

But why did the Third Circuit believe it was necessary to modify the *New Kids* test? First, the court noted that modification would be advisable because the *New Kids* test was created as a

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58. *Id.*

59. *Century 21*, 425 F.3d at 229 (internal quotation marks omitted).

60. *Id.*

*substitute* for the likelihood of confusion test. In the Third Circuit, following *KP Permanent Make-Up*, the nominative fair use test would be applied in the context of a true affirmative defense: it would be pressed into service only if and when the plaintiff established that a likelihood of confusion exists.

Moreover, upon examination, the *New Kids* test was found by the Third Circuit to suffer from a lack of clarity. The *Century 21* court criticized the first prong of the *New Kids* test for inquiring only into the need to use the mark to describe the *plaintiff's* product and not considering that need vis-à-vis the *defendant's* product.

Finally, the court found the third prong of the *New Kids* test to be too narrow. Rather than limiting the inquiry to whether the defendant had done anything to create an impression of sponsorship or endorsement, the *Century 21* court held that it was more appropriate to ask whether the defendant had accurately depicted the relationship between the parties. The court preferred this broader approach because “sometimes the plaintiff’s relationship with defendant may be one of endorsement, but the nature of the endorsement as reflected by defendant’s employment of plaintiff’s mark may not be accurate.”<sup>61</sup>

The *Century 21* nominative fair use test has been applied by a New Jersey District Court.<sup>62</sup> In *Buying for the Home, LLC v. Humble*, the court applied the abbreviated *Lapp* test, concluded there was no likelihood of confusion, and thus, never needed to reach the three-part nominative fair use test. *Century 21* has also been relied upon, in part, by a district court in the Eighth Circuit addressing a defendant’s motion for partial summary judgment.<sup>63</sup> In *Edina Realty, Inc. v. Themsoline.com*, the court first evaluated the likelihood of confusion through the application of the full, multi-prong likelihood of confusion test. In doing so, this court rejected the *Century 21* abbreviated likelihood of confusion test. Having concluded that there were genuine issues of fact regarding the likelihood of confusion, the *Edina* court next applied the *Century 21* three-part nominative fair use test and found that the defendant’s use was not nominative fair use as a matter of law. The court based this finding on the fact that the defendant used the plaintiff’s mark as an Internet search term, in its sponsored link advertisements, as well as hidden text and hidden links on its website, none of which “required” the use of the plaintiff’s mark. The court also noted that by placing the plaintiff’s mark in bold, underlined font in the

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61. *Id.* at 230-31.

62. *Buying for the Home, LLC v. Humble Abode, LLC*, 459 F. Supp. 2d 310 (D.N.J. 2006).

63. *Edina Realty, Inc. v. Themlsonline.com*, 80 U.S.P.Q. 2d 1039 (D. Minn. 2006).

headline of its sponsored link advertisements, the defendant had not conveyed the true relationship between the plaintiff and defendant.<sup>64</sup> Elsewhere, another court cited *Century 21*, but applied *New Kids* without explanation.<sup>65</sup>

## VI. STATUTORY OR NOMINATIVE FAIR USE, DOES IT MATTER?

There are some situations in which the distinction between nominative and classic fair use may make a difference. For example, the dispositive question in nominative fair use cases is often whether the term used was the only term reasonably available, while under the statutory fair use defense, the defendant must simply establish that the term was used descriptively and not as a mark, even if there were other, equally succinct, descriptive terms available.

Another important difference between the two defenses is that the statutory fair use defense is likely not available to a defendant using a coined term, while a defendant invoking the nominative fair use defense encounters no such hurdle. Note, however, that while a plaintiff's trademark may technically be a "coined term," sometimes its constituent parts are descriptive, which may allow use of the statutory defense. (FISH-FRI is arguably a coined term, but "fish fry" is descriptive).

The interesting question is whether circuit courts, and particularly those that had previously rejected the statutory defense when there was a likelihood of confusion, will follow the logic of *KP Permanent Make-Up* when considering nominative fair use. So far, two courts have considered this question and both have extended the Supreme Court's holding in *KP Permanent Make-Up* that fair use can coexist with confusion to the nominative fair use defense situation. As we now know, "[a]fter [the *KP Permanent Make-Up*] decision . . . neither classic or nominative fair use should rise and fall based on a finding of likelihood of confusion."<sup>66</sup> Similarly, the court in *Ty, Inc. v. Publications International, Ltd.* wrote, "While the Supreme Court specifically declined to address the nominative fair use defense, I am persuaded that its logic applies with similar force to defendants pursuing the defense of nominative fair use despite the almost certain likelihood of confusion regarding the source of the mark."<sup>67</sup>

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64. *Id.*

65. *Gulfstream Aerospace Corp. v. Camp Sys. Int'l, Inc.*, 428 F. Supp. 2d 1369 (S.D. Ga. 2006).

66. *Century 21*, 425 F.3d at 222-23.

67. 2005 U.S. Dist. LEXIS 23420 at 19 (N.D. Ill. 2005).

**Table 1: 3d Circuit Likelihood of Confusion Test.**

<b>Traditional</b>	<b>Nominative Fair Use</b>
1. Degree of similarity between the owner's mark and the alleged infringing mark.*	This factor is excluded.
2. Strength of the owner's mark.**	This factor is excluded.
3. Price of the goods and other factors indicative of the care and attention expected of consumers when making a purchase.	Apply this factor. Highly probative.
4. Length of time the defendant has used the mark without evidence of actual confusion.	Apply this factor. Highly probative.
5. Intent of the defendant in adopting the mark.	Apply this factor. Highly probative.
6. Evidence of actual confusion.	Apply this factor. Highly probative.
7. Whether the goods, though not competing, are marketed through the same channels of trade and advertised through the same media.	Typically not applicable but possibly probative in some situations to mitigate against a frenzy of likely confusion.
8. The extent to which the targets of the parties' sales efforts are the same.	Typically not applicable but possibly probative in some situations to mitigate against a frenzy of likely confusion.
9. The relationship of the goods in the minds of consumers because of the similarity of function.	Possibly applicable depending on the factual situation.
10. Other factors suggesting that the consuming public might expect the prior owner to manufacture a product in the defendant's market or that he is likely to expand into that market.	Possibly applicable depending on the factual situation.

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\* The *Century 21* court found that this factor leaves no room for consideration of context or purpose of the defendant's use of the mark, namely to refer to the plaintiff's product.

\*\* The *Century 21* court noted that it is nominative fair use if the defendants use a plaintiff's mark *because* it is strong and may be the only way for the defendants to refer to the plaintiff's product in a way consumers would easily comprehend.

**Table 2: Comparison of Three-Part Tests.**

<i>New Kids</i>	<i>Century 21</i>
The plaintiff's product or service must be one not readily identified without use of the trademark.	The use of the plaintiff's mark is necessary* to describe <i>both</i> the plaintiff's and defendant's product or service.
Only so much of the mark or marks may be used as is reasonably necessary to identify the product or service.	The defendant uses only so much of the plaintiff's mark as is necessary to describe plaintiff's product.
The user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.	The defendant's conduct or language must reflect the true and accurate relationship between the plaintiff's and defendant's products or services.

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\* The court explained that by "necessary" it did not mean that mark must be "indispensable" to the defendant since "the Lanham Act does not compel a competitor to resort to second best communication.