

Trademark Infringement and the Fair Use Defense

BY LINDA G. HENRY

Fenwick
FENWICK & WEST LLP

In a December 8, 2004, decision, the Supreme Court resolved a split in the appellate courts on the significance of likelihood of confusion in a fair use defense to a trademark infringement claim. The Court ruled that a party asserting the defense need not entirely negate the likelihood that consumers will be confused about the origin of the goods or services affected. *K.P. Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. ____ (2004). However, the Court conceded that a likelihood of confusion may be relevant in a fair use defense, and left open questions as to the degree of confusion that would be intolerable, whether the strength of plaintiff's mark and the commercial justification for defendant's use of the mark should be assessed in determining fair use, and whether the "used fairly" requirement in § 1115(b)(4) of the Lanham Act demands only that the descriptive term describe the goods accurately.

In *KP Permanent*, the parties were direct competitors in the permanent makeup industry. Beauty salons and licensed practitioners create permanent makeup by injecting pigment into a client's skin for cosmetic and medical purposes, such as permanent eye liner and scar revision. KP Permanent Make-up, Inc. ("KP") commenced use of "micro color" in advertising flyers in 1990 and on pigment bottles in 1991, using the term on bottle labels before the actual color of the pigment in the bottle, e.g., "MICROCOLOR: BLACK".

In 1992, Lasting Impression I, Inc. ("Lasting") commenced use of "MICRO COLORS and Design" as a trademark for its line of permanent makeup pigments. The mark registered in 1993 for color pigments and gained incontestability status in 1998. In 1999, KP expanded its use of "micro color" to marketing brochures that displayed the term prominently and in a stylized format.

Upon receiving a cease and desist letter from Lasting demanding that KP stop use of "micro color," KP commenced an action for declaratory relief in March 2000. KP asserted that Lasting did not have exclusive rights to use the term "micro colors," that the term was generic and that KP's use of "micro color" did not infringe Lasting's rights. In response, Lasting counter-claimed, alleging that KP's use of "micro color" infringed Lasting's incontestable registration and rights in the "MICRO COLORS and Design" mark. The

district court for the Central District of California granted KP's motion for summary judgment, holding that "micro color" was either descriptive or generic, neither party had acquired secondary meaning in the term and KP's use was protected under the fair use defense. Because it found KP's use fair, the district court did not address KP's prior use contentions or whether likelihood of confusion existed.

In a 2003 decision, the Court of Appeals for the Ninth Circuit reversed the district court's decision and remanded the matter for trial on the issue of likelihood of confusion. The Ninth Circuit disagreed with the district court's finding that "micro color" was generic and held that because Lasting owned an incontestable registration, Lasting did not have to demonstrate secondary meaning in "micro colors" apart from the design mark as a whole. In addition, the Ninth Circuit held that the district court erred by addressing the fair use defense without considering possible customer confusion on the origin of KP's goods. Specifically, the Ninth Circuit held that a "classic" fair use (as opposed to a "nominative" fair use) defense requires a likelihood of confusion analysis.

The Ninth Circuit explained that the distinction between the two types of fair use was important because each type calls for a different analysis. In nominative fair use, the alleged infringer uses the mark to describe the trademark owner's product, e.g., when the only practical way to refer to something is to use the trademark. When analyzing nominative fair use, likelihood of confusion is not addressed because the nominative fair use analysis replaces the likelihood of confusion test.

In contrast, in classic fair use, the alleged infringer uses the mark to describe its own product only. The Ninth Circuit explained that when a classic fair use defense is raised, likelihood of confusion must be analyzed, and a classic fair use defense *requires* that there not be a likelihood of confusion. Although the Ninth Circuit did not address the burden of proof, it appears to have placed it on KP to show an absence of consumer confusion. An appeal to the Supreme Court followed.

The question before the Supreme Court was whether a (classic) fair use defense requires the defendant to demonstrate an absence of likelihood of confusion, as had been the rule in the Ninth Circuit, or whether fair use is an absolute defense, irrespective of whether confusion may result.

The Supreme Court fixed its analysis on two points in the Lanham Act, 15 U.S.C. § 1051 et seq. The first was that the owner of a mark (incontestable or not) has the right to stop another from using an imitation of the mark in commerce when “such use is likely to cause confusion, or to cause mistake, or to deceive” (15 U.S.C. § 1114(1)), but that the burden is on the owner to prove such likelihood of confusion. 15 U.S.C. § 1115(b).

The second point, from § 1115(b)(4), focused on the statutory language of the fair use defense, available to a defendant whose use is (1) other than as a trademark; (2) fair and in good faith; and (3) only to describe the defendant’s goods and services. Specifically, the Supreme Court noted that Congress omitted likelihood of confusion in setting forth the fair use defense elements and presumed that Congress acted intentionally and purposefully in such exclusion.

Starting with these two points, the Supreme Court noted that it would take a long stretch to require the fair use defense to entail any burden to negate confusion. It rejected the notion that Congress would have used the explanatory phrase “likely to cause confusion, or to cause mistake, or to deceive” in describing the plaintiff’s burden under § 1114 to show likelihood of consumer confusion, but would have relied on the terse phrase “used fairly” in § 1115(b)(4) to place a burden on the defendant to negate confusion.

Further, the Supreme Court was not persuaded by Lasting’s argument that “used fairly” incorporates the likelihood of confusion test developed in unfair competition cases. In doing so, the Supreme Court noted that the common law of unfair competition tolerated some degree of confusion from a descriptive use of words contained in another’s trademark.

The Supreme Court also offered a practical point of view. If a plaintiff succeeds in setting forth a prima facie case of likelihood of confusion, it would make no sense to provide the defendant with an affirmative defense to prove no confusion. Instead, all that the defendant would have to do is provide sufficient doubts as to plaintiff’s ability to prove a likelihood of confusion. To require otherwise would in essence shift the burden of the case in chief from the plaintiff to the defendant.

In holding that the burden of proving likelihood of confusion rests with the plaintiff, and the fair use defense requires no freestanding need to show confusion unlikely, the Supreme Court acknowledged that some possibility of consumer confusion is compatible with fair use. However, while recognizing that the mere risk of confusion does not rule out fair use, the Supreme Court noted that the degree of consumer confusion may be pertinent in assessing fair use.

The Supreme Court left open the question as to the degree of confusion that would be intolerable. Further, it provided little guidance in determining how much confusion is unacceptable, other than to note an appellate decision holding that “to the degree that confusion is likely, a use is less likely to be found fair . . .” *Shakespeare Co. v. Silstar Corp.* 110 F.3d 234, 243 (4th Cir. 1997).

In addition, the Supreme Court’s decision appears to allow for assessing the strength of the plaintiff’s mark and the commercial justification for the defendant’s use of the term in determining whether a use is fair, pursuant to the *Restatement (Third) of Unfair Competition* (1993). If the term only marginally describes the goods or describes only a relatively unimportant characteristic of the goods, the scope of fair use may be narrower than for terms that directly describe features that are important to consumers. Similarly, the lack of alternative terms to adequately describe significant characteristics may also be relevant in assessing the commercial justification for the use of the term and, presumably, the scope of the fair use.

Further, the Supreme Court passed over whether the “used fairly” requirement in § 1115(b)(4) of the Lanham Act demands only that the descriptive term describe the goods accurately. The Supreme Court simply noted that accuracy must be a consideration in assessing fair use.

Finally, the Supreme Court’s decision did not foreclose considering certain types of evidence that are relevant to both the issues of likelihood of confusion and fair use. For example, a defendant’s intent to trade on the goodwill of the plaintiff’s mark (one of the likelihood of confusion factors) could also be probative as to defendant’s use of the mark in good faith for the fair use defense. Similarly, actual confusion in the marketplace (again, one of the likelihood of confusion factors) may be probative as to whether the defendant has used the term descriptively or as a trademark.

Therefore, while the Supreme Court settled the question that a party asserting the fair use defense need not entirely negate likelihood of confusion, likelihood of confusion appears to remain relevant in a fair use defense.