

Intellectual Property

COMMENTARY

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Fair Is Fair: Supreme Court Rules In *KP Permanent Make-Up Inc.*

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Introduction

The fair-use defense has rested in trademark law like an emergency brake on a locomotive, a rarely used but effective counterbalance to trademark owners who seek to monopolize their marks.

The U.S. Supreme Court took up a significant question regarding trademark fair use, determining whether to weaken that brake, when it granted a writ of *certiorari* in *KP Permanent Make-Up Inc. v. Lasting Impressions I Inc.*¹ At issue was whether assertion of the trademark fair-use defense requires that the proponent of the defense also demonstrate an absence of likelihood of confusion.

Prior to the Supreme Court's decision, several courts of appeal had all indicated that a likelihood of confusion between two marks does not necessarily prevent successful assertion of the fair use defense. But in 2003 the U.S. Court of Appeals for the 9th Circuit reaffirmed its view that a likelihood of confusion must be negated when a defendant asserts the fair-use defense.²

The trademark fair-use defense, codified at 15 U.S.C. § 1115(b)(4) and Section 33(b)(4) of the Lanham Act, would have been eviscerated in all but form had the Supreme Court upheld the 9th Circuit's decision. The high court correctly overruled the 9th Circuit, keeping the likelihood-of-confusion analysis separate from the fair-use defense. As a result, fair use remains a viable protection for non-infringing users.

Background: Likelihood of Confusion vs. Fair Use

In a typical trademark infringement action, the plaintiff must establish that a particular mark is protectable and

that there is a likelihood of confusion between the plaintiff's and the defendant's marks.³ If there is no confusion, then the plaintiff has suffered no injury at the hands of the defendant and cannot recover.

Courts have different tests for determining likelihood of confusion, but the eight factors from *AMF Inc. v. Sleekcraft Inc.*,⁴ cited by the 9th Circuit in *KP Permanent*, are most commonly used. They are:

- Strength of the mark;
- Proximity or relatedness of the goods;
- Similarity of the marks;
- Any evidence of actual confusion;
- Marketing channels used;
- Degree of care customers are likely to exercise in purchasing the goods;
- Defendant's intent in selecting the mark; and
- Likelihood of expansion into other markets.

A finding that confusion is likely normally leads to a finding of infringement, which a defendant must then rebut in order to avoid liability.

"Fair use" is an affirmative defense to trademark infringement. In contrast to the likelihood-of-confusion analysis, which helps determine infringement, the fair-use defense comes into play after a finding that the defendant has used the plaintiff's mark. As codified at Section 1115(b)(4), fair use involves the use of another's trademark in a non-trademark sense, including for purposes of criticism or comparison.

A successful fair-use defendant either does not use a mark as a trademark ("classic" fair use) or uses only as much of a mark as needed to identify its own product ("nominative" fair use). Confusion (or lack thereof) is not mentioned in Section 1115(b)(4) and is not an element of the fair-use defense. A fair user does not intend to confuse by the manner of use.

Factual and Procedural History

The parties in *KP Permanent* are direct competitors in the permanent-makeup industry. Permanent makeup is similar to a tattoo and can be used to cover scars or for cosmetic purposes. It is performed by injecting pigment into the skin, in a process known as micropigmentation.

In April 1992 defendant Lasting Impressions I Inc. began using the term "Micro Colors" to describe its line of permanent makeup. Lasting trademarked the term May 11, 1993 (Reg. No. 1,769,592). The mark as registered is the word "MICRO" over the word "COLORS" in white lettering within a black rectangle, separated by a horizontal green bar. The mark became incontestable in 1999.

Plaintiff KP Permanent Make-Up Inc. had been using the term MICROCOLOR on its flyers since 1990 and on its bottle labels since 1991. On these items, KP used the words MICROCOLOR in plain capital letters before the micropigment color, such as "MICROCOLOR: BLACK" or "MICROCOLOR: BLUE." In 1999 KP began using MICROCOLOR on one page of its marketing brochure displaying all the colors of permanent makeup available from the company.

In March 2000 KP commenced a declaratory relief action against Lasting Impressions in the U.S. District Court for the Central District of California. Lasting counterclaimed, alleging, among other things, that KP's use of the term MICROCOLOR infringed Lasting's incontestable MICRO COLORS registration.

KP filed for summary judgment, claiming that:

- Lasting's picture mark did not give it exclusive rights to the term MICROCOLOR;
- The MICROCOLOR mark was generic;
- The mark lacked secondary meaning;
- KP's prior use precluded exclusivity;
- There was no likelihood of confusion; and
- KP could properly assert the trademark fair-use defense.

The District Court agreed with KP, stating that KP's prior use entitled it to continue using the term MICROCOLOR. Moreover, the court determined that Lasting's mark was weak and lacked secondary meaning because MICRO COLORS was a commonly used phrase in the permanent-makeup industry.

In light of the generic/descriptive nature of the mark, the District Court determined that KP's use could not form the basis of an infringement verdict. Finally, even if Lasting's MICRO COLORS mark were protected, the fair-use defense would immunize KP.

9th Circuit Analysis

The 9th Circuit disagreed with the District Court on all counts. Beginning with the premise that an incontestable mark has a presumption of non-genericness, the court found that KP's evidence fell short of rebutting that presumption, mostly because KP's presentation consisted substantially of KP's own declaration as to genericness. Although the MICRO COLORS mark was descriptive, the court held that incontestability itself demonstrated the requisite secondary meaning, citing *Entrepreneur Media Inc. v. Smith*.⁵

Further, the 9th Circuit reversed the lower court's holding on fair use. The appeals court divided the defense into two different types, "classic" and "nominative" fair use, both of which are contained within Section 1115(b)(4). According to the 9th Circuit, classic fair use requires a likelihood-of-confusion analysis, while nominative fair use does not.

The appeals court classified KP's use as classic fair use; Lasting had admitted that KP used MICROCOLOR not in a trademark sense but rather to describe its own product. The court then cited three prior cases for the proposition that a classic fair-use defense requires a likelihood-of-confusion analysis: *Cairns v. Franklin Mint Co.*,⁶ *Transgo Inc. v. Ajac Transmission Parts Corp.*,⁷ and *Lindy Pen Co. v. Bic Pen Co.*⁸

Under the appeals court's reading of Section 1115(b)(4), the fair-use analysis occurs at the same time as the likelihood-of-confusion analysis. According to the court, a defendant cannot claim fair use if the plaintiff has made a *prima facie* showing that the defendant's use of the mark creates confusion; *i.e.*, likelihood of confusion negates fair use.

The appeals court explained that a confusing use, by definition, is not "fair," as the defendant would be free-riding on the plaintiff's goodwill. Since the District Court had not conducted a likelihood-of-confusion analysis,

the 9th Circuit held that genuine issues of material fact still existed and reversed the District Court's summary judgment ruling.

Problems With the 9th Circuit Holding

The 9th Circuit's decision in *KP Permanent* would have relegated the fair-use defense to an exceedingly minor role in trademark infringement actions. Instead of the balance between trademark and fair use in other circuits, the 9th Circuit made it harder for a defendant to assert fair use. The court overestimated the strength of the MICRO COLORS mark and underestimated the possibility that a confusing use may not be an infringing use. It made three major mistakes.

First, the court dismissed the defendant's evidence that the mark was generic and unworthy of protection. The parties agreed in their summary judgment papers that there were few means to describe the micropigmentation products both sell. Limiting the means by which a senior user can describe its own goods due to a junior user's incontestable mark does not serve the goals of the Lanham Act, whose purpose emphatically is not to limit commercial expression.

KP was not attempting to free ride on Lasting's mark — it was merely describing its own product with one of the few available phrases. That there were few means to describe the product lends credence to KP's genericness argument. The presumption of non-genericness provided by registration only creates a rebuttable presumption. How else could KP describe its product if MICROCOLOR is the accepted standard in the industry? The court's refusal to acknowledge the industry-specific conditions KP and Lasting operated in demonstrates its misunderstanding of the term MICROCOLOR.

Second, the court held that KP must first demonstrate an absence of likelihood of confusion in order to assert the fair-use defense. This is misguided; the fair-use defense is only needed after a plaintiff successfully asserts a likelihood of confusion.

Lastly, the court held that fair use cannot exist if there is confusion. Once again, the court's logic fails. A use can still be fair even if there is confusion, as Section 1115(b)(4) says nothing about confusion. The statute is not concerned with the effect on consumers; it is solely concerned with the good faith of a fair-use proponent.

For example, consider a word logo that clearly describes a product, such as BEACH BLANKET for a beach towel. If that mark was incontestably registered, and someone else attempted to use BEACH BLANKET to describe a

similar towel in a non-trademark manner (towel company X makes a great beach blanket), the 9th Circuit's logic would imply infringement. That is a highly suspect result, however, because the junior user's use is not motivated by an effort to confuse. Rather, BEACH BLANKET is an easy way to describe a towel used for the beach.

Although trademarking a popular phrase (or one common in an industry like MICRO COLORS) could inevitably lead to public confusion, because other users may use it properly for non-trademark purposes, the 9th Circuit's error was assuming that confusion necessarily eliminates fair use. If used for a non-trademark purpose, the use can still be fair.

Other Circuits Disagree

Arguably, the 6th Circuit agreed with the 9th Circuit's conclusion that confusion negates fair use. However, the defendant in that case, *Paccar Inc. v. Telescan Technologies*,⁹ was attempting to free ride on the plaintiff's marks by including them as metatags on its Web site. The 6th Circuit ruled that the defendants sought to "derive a benefit from the reputation of [plaintiff's] marks." This clearly is not the case with KP, which sought only to describe its own products.

No other court has agreed with the 9th Circuit's decisions. In two decisions on this same topic a decade earlier, the 2d Circuit determined that a use could be fair despite confusion. *Cosmetically Sealed Indus. v. Chesebrough-Ponds USA Co.*;¹⁰ *Car-Freshener Corp. v. S.C. Johnson & Son Inc.*¹¹ It held that if a defendant intended not to use another's mark for its own gain and instead used it in good faith, then no liability should attach. The court then stated that this is the goal of the Lanham Act as codified in Section 1115(b)(4).

The Restatement (Third) of Unfair Competition¹² explicitly agrees with the 2d Circuit's interpretation. And the 5th Circuit, in *Pebble Beach Co. v. Tour 18 Ltd.*¹³ and *Soweco Inc. v. Shell Oil Co.*,¹⁴ repeatedly expressed a reluctance to use likelihood-of-confusion analysis in connection with a fair-use defense.

The 4th Circuit¹⁵ and the 7th Circuit¹⁶ charted a slightly different course, holding that a likelihood of confusion is relevant but that fair use can potentially trump consumer confusion. While these rulings are not as explicit as those by the 2d and 5th Circuits, the cases at least tentatively support the idea that fair use can exist even if there is confusion.

Supreme Court Opinion

In a 12-page opinion for a unanimous Supreme Court vacating the 9th Circuit's decision,¹⁷ Justice David Souter

explained that a trademark defendant could assert fair use even if there is a likelihood that the defendant's mark would be confused with that of the plaintiff.

The court began by noting two points about the Lanham Act: Section 1115(b)(4) places the burden of demonstrating likelihood of confusion on the party charging infringement, and Congress said nothing about likelihood of confusion in setting out the elements of the fair-use defense in Section 1115(b)(4).

Looking to the legislative history, the high court also noted that the U.S. House of Representatives Subcommittee on Trademarks declined to forward to Congress a proposal to expressly include, as an element of the defense under Section 1115(b)(4), that a descriptive use be "[un]likely to deceive the public."

From these basic points, the court found that a confusion analysis was not part of the fair-use defense: "A plaintiff claiming infringement of an incontestable mark must show likelihood of consumer confusion as part of the *prima facie* case ... while the defendant has no independent burden to negate the likelihood of any confusion in raising the affirmative defense that a term is used descriptively, not as a mark, fairly and in good faith."

The court dealt with the tension between confusion and fair use by stating that the existence of consumer confusion does not preclude fair use; consumer confusion, without more, cannot defeat a fair-use defense. The court found that confusion and fair use are not incompatible but instead are checks on one another:

"Some possibility of consumer confusion must be compatible with fair use, and so it is," the court said. "The common law's tolerance of a certain degree of confusion on the part of consumers followed from the very fact that in cases like this one an originally descriptive term was selected to be used as a mark, not to mention the undesirability of allowing anyone to obtain a complete monopoly on use of a descriptive term simply by grabbing it first."

The court then disposed of Lasting's arguments. The court held that a fair-use defendant did not need to negate the existence or likelihood of consumer confusion, as Lasting suggested, nor did the historical underpinnings of the fair-use defense necessitate a confusion analysis. Most powerfully, the court noted the circular reasoning in Lasting's position.

The court stated that the fair-use defense is necessary only when the plaintiff has shown, by a preponderance of

the evidence, that confusion is likely, *i.e.*, when the plaintiff has established its *prima facie* case of infringement. But under Lasting's theory, the mere existence of likelihood of confusion negates the fair-use defense.

In effect, under Lasting's theory, the only time a fair-use defense is needed — when a *prima facie* case of infringement is established — is when it cannot succeed. This would render the defense illusory. Taken as a whole, the decision represents a comprehensive disavowal of Lasting's arguments.

Importantly, however, the court did not expand the contours of fair use. For example, it did not rule on the role of any other trademark infringement factors, such as commercial justification or the strength of a plaintiff's mark, in a fair-use defense. Thus, while the court held that "mere risk of confusion will not rule out fair use," it also determined that "the door is not closed" on how to weigh the other considerations relevant to a fair-use assessment.

The court also noted that confusion still plays a pivotal role in a trademark infringement case, even though it does not directly inform the fair-use analysis.

Case Significance

Trademark holders have always faced the risk that another may fairly use their mark in a non-trademark, descriptive manner. The Supreme Court's ruling in *KP Permanent* makes it potentially more difficult for trademark owners to prevail on claims that another party is misappropriating a trademark that is being used in a descriptive sense.

The court has thus reduced the power of a descriptive mark to restrict free discourse in the marketplace. According to the court, a trademark holder knowingly accepts the risk of descriptive use when it identifies its product with a well-known word or phrase.

The decision also clarifies the burden faced by a trademark infringement defendant. A party asserting fair use has no independent obligation to negate likelihood of confusion. The fair-use defense operates independently of the confusion analysis and can immunize a defendant's use of a word or phrase even if consumer confusion is established.

But the defendant continues to bear the burden of demonstrating fair use as a defense, just as the plaintiff continues to bear the burden of showing likely confusion in the marketplace in order to establish infringement.

Notes

¹ No. 03-409, 125 S. Ct. 542 (Dec. 8, 2004).

² 328 F.3d 1061 (9th Cir. 2003).

³ See, e.g., *Park 'N Fly Inc. v. Dollar Park & Fly Inc.*, 469 U.S. 189 (1985).

⁴ 599 F.2d 341 (9th Cir. 1979).

⁵ 279 F.3d 1135, 1142 n.2 (9th Cir. 2002).

⁶ 292 F.3d 1139, 1150 (9th Cir. 2002).

⁷ 911 F.2d 363, 366 n.2 (9th Cir. 1990).

⁸ 725 F.2d 1240, 1248 (9th Cir. 1984).

⁹ 319 F.3d 243, 256 (6th Cir. 2003).

¹⁰ 125 F.3d 28, 30 (2d Cir. 1997).

¹¹ 70 F.3d 267, 270 (2d Cir. 1995).

¹² Restatement (Third) of Unfair Competition, § 28 cmt. a (1995).

¹³ 155 F.3d 526, 545 (5th Cir. 1998).

¹⁴ 617 F.3d 1178, 1185 (5th Cir. 1980).

¹⁵ *Shakespeare Co. v. Silstar Corp. of Am.*, 110 F.3d 234, 243 (4th Cir. 1997).

¹⁶ *Sunmark Inc. v. Ocean Spray Cranberries Inc.*, 64 F.3d 1055, 1059 (7th Cir. 1995).

¹⁷ Justice Antonin Scalia declined to join footnotes 4 and 5 (legislative history), while Justice Stephen Breyer declined to join footnote 6 (evidentiary weight).

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