

## THE SUPREME COURT'S ALLOWANCE THAT CONSUMER CONFUSION MAY BE INVOKED TO DEFEAT FAIR USE

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### I. INTRODUCTION

The Supreme Court's ruling in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*,<sup>1</sup> left many trademark lawyers disappointed. They had expected an opinion that would provide a wide-ranging analysis of the fair use defense under the Lanham Act, 15 U.S.C. § 1115(b)(4). The Supreme Court followed its more common practice, however, of issuing an opinion that focuses narrowly on the legal issue that arose in the case before it.

Faced with a ruling by the Ninth Circuit that the statutory fair use defense is barred whenever there is any likelihood of consumer confusion, and a diametrically opposed ruling by the district court that likelihood of confusion is wholly irrelevant to the determination of the validity of the fair use defense, the Supreme Court charted a middle course and then remanded the case for application of its ruling.

The Court held that a litigant invoking the fair use defense does not have a duty to disprove a likelihood of confusion in order to assert that defense. The Court also refused, however, to hold that consumer confusion is never relevant to the fair use defense. The Court allowed for the possibility that mark owners could present evidence of likelihood of confusion and emphasized that its ruling "does not foreclose the relevance of the extent of any likely consumer confusion in assessing whether a defendant's use is

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1. 125 S. Ct. 542 (2004).

objectively fair.”<sup>2</sup> The Court left for further development in the lower courts the question of exactly how to weigh evidence of likelihood of confusion in determining the validity of a fair use defense.

How the lower courts throughout the country will apply the Supreme Court’s ruling remains to be seen. The Ninth Circuit, on remand, correctly applied the ruling and again reversed the district court’s entry of summary judgment against Lasting Impression and remanded the case for further proceedings. The court of appeals held that “the degree of customer confusion remains a factor in evaluating fair use,” thereby freeing Lasting Impression from the erroneously entered summary judgment order so that it can proceed with evidence of consumer confusion, including actual confusion, that it presented in this case.<sup>3</sup>

The path through which this particular case traveled to reach that result provides an interesting example of the manner in which a legal issue evolves from the trial court to the Supreme Court. Although the case could have served as an opportunity for a broader analysis of overarching trademark doctrine, Lasting Impression’s interests in the particular case compelled it to focus on the procedural posture of the case and the narrower ruling necessary to achieve its litigation goal. Therefore, the development of a framework for considering likelihood of confusion in the fair use defense determination will continue in the lower courts, now guided by the Supreme Court’s clarification that although such confusion is not an automatic bar to fair use, it cannot be ignored.

## II. HOW THE FAIR USE DEFENSE AROSE IN THE CASE

The trademark at issue in this case owned by Lasting Impression is MICRO COLORS, used to identify liquid pigments that are injected into the skin as part of a process known as permanent make-up application (also known as micropigmentation or cosmetic tattooing). That process alters the hue of the skin at the injection site, either for medical reasons such as reconstruction following surgery where the color is changed to eliminate scars or pigmentary disorders, or for cosmetic reasons where the color is intended to be subtle, yet visible, such as permanent eyeliner.

Lasting Impression began using MICRO COLORS commercially for its line of permanent make-up pigments in April

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2. *Id.* at 550.

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

1992.<sup>4</sup> Lasting Impression applied for federal trademark registration protection in 1992 and the United States Patent and Trademark Office (USPTO) registered the mark on May 11, 1993.<sup>5</sup> As described by the court of appeals, the mark is “a design and word mark and consists of a solid black rectangle, with the words ‘micro’ and ‘colors’ in reverse white lettering . . . [and the] word ‘micro’ appears directly over the word ‘colors,’ and the two are separated by a green horizontal bar.”<sup>6</sup> In 1999, the USPTO granted Lasting Impression’s request that its right to use MICRO COLORS become incontestable under 15 U.S.C. § 1065.

In January 2000, Lasting Impression contacted one of its direct competitors, KP Permanent Make-Up (KP), to request that KP discontinue use of Lasting Impression’s MICRO COLORS mark because it had come to the attention of Lasting Impression that KP had begun using the mark in KP’s marketing and advertising materials. KP responded by filing suit in March 2000 for a declaratory judgment that Lasting Impression does not have the exclusive use of, or right to use, the term “micro colors” despite the fact that MICRO COLORS is a registered, incontestable trademark. KP alleged that “micro colors” is generic and that the MICRO COLORS registration should be cancelled. Lasting Impression counterclaimed for trademark infringement, unfair competition and false advertising.

On summary judgment, the district court ruled that the term “micro colors” is either generic or merely descriptive and that any secondary meaning that the mark had attained, including through its incontestable status, was only in the composite, stylized mark that Lasting Impression used, and not in the words themselves. The district court also granted KP’s motion for summary judgment on the counterclaim against it for trademark infringement, holding that KP’s use is allowed under 15 U.S.C. § 1115(b)(4) as a “fair use.”<sup>7</sup> The district court ruled that fair use is an absolute defense,

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4. *Id.* at 600.

5. Pursuant to a request from the USPTO during the examination process, an amendment clarifies that “no claim is made to the exclusive right to use ‘colors’, apart from the mark as shown.” *Jt. App.* 211.

6. 408 F.3d at 601.

7. KP’s initial arguments also included a claim that it had engaged in prior use of the term as a trademark under 15 U.S.C. § 1115(a), (b)(5), since 1991 based on purported evidence that was directly contested by Lasting Impression’s evidence. Before a registration becomes incontestable, prior use provides grounds to oppose registration and to sue for cancellation of a registration before the USPTO, but KP never pursued such a course. Moreover, KP’s prior use argument contradicted KP’s fair use argument, which is available only if the alleged infringer is using the term “otherwise than as a mark.” Lasting Impression responded to these conflicting arguments by assuming *arguendo* the necessary facts suggested by KP under both arguments. KP later attempted to rely on that as a concession by Lasting Impression that KP used the mark descriptively and not as a mark. The district court did not address Lasting Impression’s conflicting evidence or the current

and that it was therefore not necessary to inquire into likelihood of consumer confusion.<sup>8</sup>

The Ninth Circuit Court of Appeals reversed the district court's findings of genericness and mere descriptiveness.<sup>9</sup> The Ninth Circuit disagreed with the district court's application of *Park 'N Fly, Inc. v. Dollar Park and Fly*,<sup>10</sup> and held that Lasting Impression had no independent burden to demonstrate that the words "micro colors" had acquired secondary meaning beyond what was necessary to demonstrate the distinctiveness of the mark. Thus, not only the composite logo of the MICRO COLORS mark had obtained secondary meaning through incontestability, but the words themselves, as the most salient feature, had also acquired similar meaning.<sup>11</sup> The court of appeals directed that summary adjudication be entered for Lasting Impression on the issue of whether the mark is generic, because the mark is not. The court of appeals held that "a reasonably minded jury could not conclude from the evidence produced that 'micro colors' is a generic term."<sup>12</sup> The court of appeals emphasized that the incontestable status of the right to use the MICRO COLORS mark "is conclusive evidence" that the term is "non-descriptive or has acquired secondary meaning."<sup>13</sup>

On the issue of KP's fair use defense, the court of appeals reversed and remanded for further proceedings. Relying on longstanding circuit precedent, the Ninth Circuit stated, "when the classic fair use defense is raised, it is still necessary to analyze likelihood of confusion."<sup>14</sup> It held that "because in this case there

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use of the mark by KP on its marketing brochure. The Supreme Court ultimately recognized that the district court had not properly addressed Lasting Impression's evidence or arguments, and discussed the matter in an unusual footnote regarding the factual record in this case. The Supreme Court stated that the lower courts on remand should "direct their attention" to these "factual issues bearing on the fair use defense, properly applied," including the differences in Lasting Impression's arguments regarding KP's different uses and differences in the fair use analysis of KP's stylized use of the term "microcolor" on its marketing brochure and its purported earlier use of the term on bottles and flyers. 125 S. Ct. at 551 n.6.

8. 408 F.3d at 601.

9. *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 328 F.3d 1061 (9th Cir. 2003).

10. 469 U.S. 189 (1985).

11. 328 F.3d at 1068-69.

12. *Id.* at 1070.

13. *Id.* at 1071.

14. *Id.* at 1072 (citing *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1151 (9th Cir. 2002); *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 911 F.2d 363 (9th Cir. 1990); *Lindy Pen Co. v. Bic Pen Corp.*, 725 F.2d 1240 (9th Cir. 1984), *cert. denied*, 469 U.S. 1188 (1985)).

can be no fair use if there is a likelihood of confusion, the likelihood of confusion must be addressed.”<sup>15</sup>

### III. HOW THE FAIR USE ISSUE WAS PRESENTED TO THE SUPREME COURT

KP filed a petition for a writ of *certiorari*, contending that the Ninth Circuit’s opinion conflicted with opinions of other circuits and contributed to a longstanding split as to whether an alleged infringer can invoke the statutory fair use defense, regardless of whether there is a likelihood of confusion. KP reviewed the status of the fair use defense in various circuits, pointing to the First Circuit where it described the defense as an alternative to likelihood of confusion,<sup>16</sup> the Second Circuit where it described the defense as available regardless of customer confusion,<sup>17</sup> the Fourth Circuit where the court recognized that the degree of confusion bears on fair use,<sup>18</sup> the Fifth Circuit where KP viewed the status of the defense as unclear,<sup>19</sup> the Seventh Circuit where KP stated that likelihood of confusion arises only if the use is as a mark that precludes fair use<sup>20</sup> and the Ninth Circuit where longstanding precedent led to the ruling in the instant case.<sup>21</sup> KP also pointed to Supreme Court precedent discussing fair use that predated the Lanham Act.<sup>22</sup> KP sought to persuade the Supreme Court that fair use is an “absolute defense” regardless of any consumer confusion created by the use that is alleged to infringe a trademark.<sup>23</sup>

Lasting Impression opposed *certiorari*, first arguing that fair use is inapplicable in the case because the mark MICRO COLORS is not merely descriptive,<sup>24</sup> and second, contending that review by

15. *Id.* The court of appeals also discussed the nominative fair use defense to distinguish the statutory fair use defense, *id.* at 1071-72, but the Supreme Court explicitly declined to address the matter. 125 S. Ct. at 546 n.3.

16. Pet. 5-6 (citing *Leathersmith of London Ltd. v. Alleyn*, 695 F.2d 27 (1st Cir. 1982), *cert. denied*, 459 U.S. 1209 (1983)).

17. Pet. 5 (citing *Cosmetically Sealed Indus. v. Chesebrough-Pond’s USA Co.*, 125 F.3d 28, 30 (2d Cir. 1997)).

18. Pet. 6-7 (citing *Shakespeare Co. v. Silstar Corp.*, 110 F.3d 234, 243 (4th Cir. 1997)).

19. Pet. 7-8 (citing *Soweco, Inc. v. Shell Oil Co.*, 617 F.2d 1178 (5th Cir. 1980), *cert. denied*, 450 U.S. 981 (1981), and *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 796 (5th Cir. 1983)).

20. Pet. 8-9 (citing *Sunmark, Inc. v. Ocean Spray Cranberries, Inc.*, 64 F.3d 1055 (7th Cir. 1995)).

21. Pet. 10-11 (citing *Cairns v. Franklin Mint Co.*, 292 F.3d 1139 (9th Cir. 2002); *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 911 F.2d 363 (9th Cir. 1990); *Lindy Pen Co. v. Bic Pen Corp.*, 725 F.2d 1240 (9th Cir. 1984)).

22. Pet. 9-10; *William R. Warner Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924).

23. Pet. i.

24. Br. in Opp. 2-5.

the Supreme Court was not warranted because the majority of circuits applied the same standard as the Ninth Circuit.<sup>25</sup> Lasting Impression maintained that the Ninth Circuit's ruling was correct and should not be disturbed. In reply, KP noted that Lasting Impression's first argument raised another issue on which the lower courts were in disagreement<sup>26</sup> and urged review to resolve the disagreement about whether the fair use defense requires the alleged infringer to demonstrate an absence of likelihood of confusion.

The Supreme Court granted *certiorari* on January 9, 2004.<sup>27</sup> In its brief on the merits, KP defended the district court's summary judgment ruling and urged the Supreme Court to strictly interpret the statute and "rul[e] that a district court is not required to undergo a likelihood of confusion analysis when deciding if a use of a disputed term is a fair use."<sup>28</sup> KP also argued that the legislative history of the Lanham Act and the statutory fair use defense, 15 U.S.C. § 1115(b)(4), demonstrated that a defendant can rely on the fair use defense even if its use causes consumer confusion.<sup>29</sup> KP invoked First Amendment concerns to support its view.<sup>30</sup>

At the same time that KP filed its brief, various entities and organizations also filed briefs as *amici curiae*, including the Solicitor General of the United States. Although the *amici* briefs all purported to be supporting petitioner or reversal, two of those *amici* explicitly acknowledged that the extent to which a use is likely to cause consumer confusion is an important, if not dispositive, consideration in determining whether a use is fair.<sup>31</sup> These two *amici* briefs urged the Supreme Court to avoid adopting an absolute rule that would prohibit consideration of the likelihood of confusion under the fair use defense. Because those *amici* rejected KP's absolute defense that likelihood of confusion is not

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25. *Id.* at 6-9.

26. Reply Br. on Cert. 4-7. The disagreement stems from the language of the fair use provision, 15 U.S.C. § 1115(b)(4), which refers to a term or device that is "descriptive of . . . goods or services." Some circuit courts have construed this language to indicate that the fair use defense is effective only against marks classified as descriptive on the scale of distinctiveness. See, e.g., *Institute for Scientific Information, Inc. v. Gordon & Breach, Sci. Publ'rs, Inc.*, 931 F.2d 1002, 1010 (3d Cir.), *cert. denied*, 502 U.S. 909 (1991). Other courts have held that the fair use defense may be invoked against a mark of any level of distinctiveness. See, e.g., *Sunmark, Inc. v. Ocean Spray Cranberries, Inc.*, 64 F.3d 1055, 1058 (7th Cir. 1995). See also 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 11:45 (4th ed. 2004) (describing split).

27. 540 U.S. 1099 (2004).

28. Pet. Br. 7; *see id.* at 19-22.

29. *Id.* at 7, 24-32.

30. *Id.* at 32-36.

31. See Brief of American Intellectual Property Law Association 2, Brief of International Trademark Association 5, 18-19.

relevant to fair use, they in fact supported the judgment of the court of appeals, which had reversed the district court's application of such an absolute defense in granting summary judgment. Thus, they provided support for Lasting Impression's position that the district court's summary judgment could not stand.

Indeed, Lasting Impression invoked the arguments of those *amici* in its brief on the merits to support its argument that whether a mark is "used fairly" within the meaning of the statutory fair use defense, 15 U.S.C. § 1115(b)(4), requires consideration of the likelihood of confusion.<sup>32</sup> Lasting Impression also relied on the *Restatement (Third) of Unfair Competition* (1993), quoting its view that "the strength of the plaintiff's mark and the extent of likely or actual confusion are important factors in determining whether a use is fair" and "a use that is likely to create a substantial confusion will not ordinarily be considered a fair use."<sup>33</sup> Thus, in addition to advancing arguments in defense of the Ninth Circuit's position that a finding of likelihood of confusion should always preclude a fair use defense, Lasting Impression urged that even if the Supreme Court rejected that rationale, the Supreme Court should hold that the fair use "necessarily includes consideration of likelihood of confusion."<sup>34</sup> Lasting Impression also responded to KP's legislative history argument, and a common law argument by the Solicitor General, by delving into the origins of the statutory fair use defense and its effect before it was amended to its current form in Section 1115(b)(4). Lasting Impression contended that KP's absolute defense was inconsistent with the purpose and structure of the Lanham Act, whose emphasis on fairness resulted from an intent to protect both producers and consumers, and was contrary to the common law and not supported by statutory amendment.<sup>35</sup>

An *amicus* brief was also filed in support of respondents. In that brief, the Society of Permanent Cosmetic Professionals similarly advanced the middle position supported by various of KP's *amici* and Lasting Impression, and argued that, "[i]n many cases, . . . including this one—evidence that is relevant to whether there is a likelihood of confusion is also relevant to whether there is a valid fair use defense."<sup>36</sup> They therefore agreed that the court of appeals was correct to reverse the district court's entry of summary judgment against Lasting Impression based on the

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32. Resp. Br. 14-15; 31-37; 41-47.

33. *Id.* at 15 (quoting *Restatement (Third) of Unfair Competition* § 28 cmt. b (1993)).

34. *Id.* at 49.

35. *Id.* at 19-22.

36. Brief for Society of Permanent Cosmetic Professionals and the Distinguished Citizens Society International 7.



district court's refusal to consider the evidence of likelihood of confusion in this case.

#### IV. THE SUPREME COURT'S RESOLUTION OF THE ISSUE

The Supreme Court charted a middle course in *KP Permanent Make-Up v. Lasting Impression I, Inc.*, rejecting the Ninth Circuit's view that the existence of a likelihood of confusion defeats a statutory fair use defense under 15 U.S.C. § 1115(b)(4), but also rejecting the district court's view that a likelihood of confusion is irrelevant to the determination of the validity of such a defense. Given the wide disparity between the positions of the two lower courts in this case, and the more moderate positions advanced by several of the *amici* and supported by Lasting Impression, the Supreme Court's decision is not surprising.

The Supreme Court resolved several threshold issues related to the statutory fair use defense, but it left to the lower courts the development of the framework for considering evidence of the likelihood of confusion. As for the threshold issues, the Supreme Court clearly held that a party raising the statutory fair use defense under Section 1115(b)(4) does not have a burden to negate any likelihood that the alleged infringing use causes consumer confusion.<sup>37</sup> The Supreme Court also unequivocally held that "mere risk of confusion will not rule out fair use."<sup>38</sup>

At the same time, the Supreme Court explicitly realized that its "holding that fair use can occur along with some degree of confusion does not foreclose the relevance of the extent of any likely consumer confusion in assessing whether a defendant's use is objectively fair."<sup>39</sup> The Supreme Court pointed to decisions of the Fourth and Seventh Circuits in which these courts had found the scope of likelihood of confusion relevant to the statutory fair use determination.<sup>40</sup> The Supreme Court also cited the *Restatement* on which Lasting Impression had relied and noted that various *amici* briefs had urged the Supreme Court "to say that the degree of

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37. 125 S. Ct. at 545-46. This ruling answers the first part of the question presented by KP in its *certiorari* petition as to whether the fair use defense "require[s] the party asserting the defense to demonstrate an absence of likelihood of confusion." Pet. i. The second part of KP's question presented, as to whether fair use is "an absolute defense, irrespective of whether or not confusion may result," *id.*, is the focus of the remainder of the Court's opinion.

38. 125 S. Ct. at 550.

39. *Id.*

40. *Id.* at 550-51 (citing *Shakespeare Co. v. Silstar Corp.*, 110 F.3d at 243 ("[T]o the degree that confusion is likely, a use is less likely to be found fair . . .") (emphasis omitted); *Sunmark, Inc. v. Ocean Spray Cranberries, Inc.*, 64 F.3d at 1059).



likely consumer confusion bears not only on the fairness of using a term, but even on the further question whether an originally descriptive term has become so identified as a mark that a defendant's use of it cannot realistically be called descriptive."<sup>41</sup> Faced with these arguments, the Supreme Court explicitly did "not rule out the pertinence of the degree of consumer confusion under the fair use defense."<sup>42</sup> In doing so, the Supreme Court also declined to rule on the United States' argument as *amicus* that the "used fairly" requirement under Section 1115(b)(4) is somehow limited, requiring only an accurate description of the goods.<sup>43</sup> The Supreme Court noted that accuracy is a consideration in fair use, but that there are other relevant considerations such as those mentioned in the *Restatement*, including the strength of the mark and any commercial justification. Thus, the Supreme Court invited lower courts to develop an analysis for proper consideration of the various factors relevant to a determination of the validity of a fair use defense, including likelihood of consumer confusion.<sup>44</sup>

Commentators appear to have been disappointed with this limited reach of the Supreme Court's ruling. Expectations for the opinion in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.* had varied. Some commentators had expected that the opinion would follow on in the spirit of *Park 'N Fly*,<sup>45</sup> and to some extent the opinion does so. *Park 'N Fly* analyzed the language and legislative history of incontestability under the Lanham Act and had offered several observations on the purpose of the Act in explaining the relevance of incontestability. *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.* similarly offers an analysis of some of the common law and statutory background of the fair use defense. But the opinion also is akin to a case from the immediately preceding term, *Moseley v. V Secret Catalogue, Inc.*,<sup>46</sup> which turned on a relatively narrow issue of statutory construction. In both of these more recent cases, the Supreme Court focused on the specific text of the Lanham Act and did not offer much guidance beyond the scope of the lower court's ruling in the particular case.

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41. *Id.*

42. *Id.* at 551.

43. Brief of United States 23-24.

44. 125 S. Ct. at 551.

45. *Park 'N Fly v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 196-202 (1985). The *Park 'N Fly* case also had led some to speculate, inaccurately as it turned out, that Justice Kennedy might author the opinion for the Court in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, or write a separate opinion in the case, because he had participated in the *Park 'N Fly* case as a member of the court of appeals.

46. 537 U.S. 418 (2003).

## V. CONCLUSION

Any ruling by the Supreme Court in a trademark case merits attention because so few trademark cases are reviewed by the Court. In *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, the Supreme Court's opinion is a narrow one that rejects two diametrically opposed interpretations of the statutory fair use defense, 15 U.S.C. § 1115(b)(4), that had arisen in the lower courts. The Supreme Court adopted an approach that allows lower courts to weigh the likelihood of consumer confusion created by an alleged infringer in determining the validity of a fair use defense. The Supreme Court left to such future cases the development of the proper analysis for such a determination.

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