

## INTELLECTUAL PROPERTY

BY LEWIS R. CLAYTON

### *Third Circuit Announces New Test to Analyze Certain Fair Uses*

In a traditional trademark case, two competitors who use similar marks on their products debate whether consumers will be misled to believe that both products come from a common source. The federal courts have well-developed tests—such as the U.S. Court of Appeals for the Second Circuit's *Polaroid* factors—used to determine whether use of similar marks creates a likelihood of confusion.

The courts have a more difficult time in cases where a trademark is used, not to identify a source, but instead to describe some characteristic of the defendant's product—a situation courts have described as "fair use." Last month, a divided panel of the U.S. Court of Appeals for the Third Circuit announced a new test to analyze certain fair use cases. *Century 21 Real Estate Corp. v. LendingTree Inc.*, 425 F3d 211 (3d Cir. 2005). The Third Circuit now joins the U.S. Court of Appeals for the Ninth Circuit as the only two federal appellate courts to consider these issues in depth.

In *Century 21*, defendant LendingTree operated an Internet-based real estate referral service allowing consumers to choose from a large panel of participating brokers, including firms that are franchisees of plaintiffs Century 21, Coldwell Banker and ERA. The Web site included explicit references to plaintiffs' trademarks and stated that LendingTree provides "access to a national network of brokers representing the country's leading real estate companies, including Coldwell Banker, ERA and Century 21." The site also contained a disclaimer stating that LendingTree is "not sponsored by or affiliated with the parent franchisor companies of any of the participating members of its network."

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Finding a likelihood that consumers would be misled to believe there was a connection between LendingTree and the plaintiffs, a New Jersey district court granted a preliminary injunction prohibiting use of plaintiffs' marks.

The Third Circuit began its analysis by distinguishing two types of fair use. In "classic" fair use—a doctrine codified in the Lanham Act, 15 USC §1115(b)(4)—a word or phrase that is a trademark is used to describe the defendant's goods or services, not to refer to the trademark holder. The electronics retailer Best Buy would have difficulty stopping a car company from advertising that its sedan is the "best buy" in its class. In "nominative" fair use—the kind at issue in *Century 21*—a trademark is used to refer to the trademark holder, but also to describe defendant's product or service—a car mechanic specializing in foreign cars may call his business Joe's Independent Volvo service, even though he isn't associated with the manufacturer.

The most widely followed standard for nominative fair use is that of *New Kids on the Block v. News America Publ'g, Inc.*, 971 F2d 302 (9th Cir. 1992). Under *New Kids*, a defendant invoking the doctrine must show that: (1) its product or service is not "readily identifiable" without use of plaintiffs' mark; (2) only so much of plaintiff's mark as is "reasonably necessary" was used to identify defendant's product or service; and (3) defendant did nothing that suggests "sponsorship

or endorsement by the trademark holder."

The Third Circuit panel, however, rejected the *New Kids* standard. Instead, it promulgated a two-part test. First, plaintiff has the burden to show likelihood of confusion. To make this determination, the court is to use a set of factors employed in traditional infringement cases, as described in *Interpace Corp. v. Lapp, Inc.*, 721 F2d 460 (3d Cir. 1983), except that two factors—similarity of the marks and strength of plaintiff's mark—are not to be considered, as they are deemed inappropriate in a nominative fair use case.

Second, if plaintiff shows likelihood of confusion, defendant must carry the burden to show that its use of the mark is "fair." Here, the panel announced a modified version of the *New Kids* test: defendant must show that: (1) use of plaintiff's mark is "necessary to describe both the plaintiff's product or service and the defendant's product or service;" (2) only so much of plaintiff's mark "as is necessary to describe defendant's product" is used; and (3) the defendant's "conduct or language reflect the true and accurate relationship between plaintiff and defendant's products or services."

Defendant need not show that use of plaintiff's mark is "indispensable," because the Lanham Act "does not compel a competitor to resort to second-best communication." A trial court is also to consider the effect of any disclaimer and "what more the defendant could have done to prevent an improper inference regarding the relationship."

The case was remanded to the trial court for evaluation under this new standard.

One can debate whether the *Century 21* test will produce results significantly different from an analysis under *New Kids*. Under either standard, however, it is likely that the courts will tolerate some risk of confusion in order to allow the benefits of nominative use.

### Patents

The U.S. Court of Appeals for the Federal Circuit

issued a significant decision rejecting application of the doctrine of patent misuse to the licensing of a group of patents as a package—a patent “pool.” *U.S. Philips Corp. v. International Trade Comm’n*, 424 F3d 1179 (Fed. Cir. 2005). Philips licensed its patents covering CD technology as a package, charging the same per-disk royalty regardless of how many patents actually were used by the licensee. The International Trade Commission found that several patents in the pool were not essential to CD manufacture and that Philips’ refusal to license only the essential patents constituted patent misuse, invalidating the pooled patents. Reversing, the Federal Circuit distinguished between agreements that condition license of a patent on the purchase or use of patented or unpatented goods—which have been found to constitute misuse—and patent pools. Unlike purchase agreements, patent pools do not prevent the licensee from using technology offered by a competitor of the patent licensor. The Court of Appeals also held that a reviewing court must take into account the procompetitive benefits of patent pools. Pools can reduce transaction costs by eliminating the need for multiple contracts, allow pricing based on the value of an overall technology rather than the marginal value of an individual patent, and “obviate any potential patent disputes between a licensor and licensee.” A pool can protect against “the unpleasant surprise for a licensee who learns, after making a substantial investment, that he needed a license to more patents than he originally obtained.” The case was remanded to the ITC for consideration under these standards.

Under the Patent Act, infringement suits may be brought only by the patentee or a person to whom the patentee has transferred all substantial rights under the patent. That requirement is strictly enforced by the Federal Circuit. In *Sicom Systems Ltd. v. Agilent Tech., Inc.*, 2005 WL 2649295 (Fed. Cir. Oct. 18, 2005), the Federal Circuit affirmed dismissal of an infringement action brought by a licensee who had been granted the exclusive right to sue for “commercial infringement” of the patent. Despite that grant, the patent owner (the Canadian government) had retained the rights, among others, to sue for infringement by noncommercial entities such as governmental entities and universities, and the right to approve the grant of a sublicense and the settlement of litigation. Therefore, the licensee lacked standing to sue without joinder of the patent owner.

Under long-established Federal Circuit law, the mere act of sending a cease-and-desist letter to a potential infringer of a patent does not subject the patent holder to jurisdiction in the potential infringer’s home state. That precedent gives patent holders a significant degree of control over when and

where patent litigation will take place. Should that rule be different for “patent trolls”—companies whose only assets are patent rights and whose only business is attempting to obtain license fees, rather than practice an invention? A Utah federal court reluctantly answered no to that question. *Overstock.com, Inc. v. Furnace Brook, LLC*, 2005 U.S. Dist. LEXIS 25983 (D. Utah Oct. 31, 2005). Observing that “patent trolls can more easily thrive in the environment that the Federal Circuit’s precedent has created, for they can threaten litigation against a potential infringer in a foreign forum without fear of being subject to suit themselves in that forum,” the court nevertheless found no basis to create an exception to the general rule. The court granted a motion to dismiss a declaratory judgment action commenced by the recipient of a

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cease-and-desist letter sent by a company that had purchased a patent in a bankruptcy auction.

### Trademarks

In *Louis Vuitton Malletier v. Burlington Coat Factory Warehouse Corp.*, 2005 WL 2509311 (2d Cir. Oct. 12, 2005), the Second Circuit reversed a denial of a preliminary injunction based on the trial court’s conclusion that consumers would not be confused when viewing the parties’ competing products in a side-by-side comparison. The products—designer handbags—would not normally be found side by side in the marketplace; instead, they would be seen sequentially in different stores. “Though two products may be readily differentiated when carefully viewed simultaneously those same products may still be confusingly similar in the eyes of ordinary consumers encountering the products individually under typical purchasing conditions...” The case was remanded for reconsideration under that standard.

In *State of Idaho Potato Comm’n v. G&T Terminal Packaging, Inc.*, 425 F3d 708 (9th Cir. 2005), the Ninth Circuit followed the Second Circuit in holding invalid a no-challenge provision in a license agreement between defendant and the Idaho Potato Commission (IPC) concerning the certification marks “Grown in Idaho” and “Idaho.” Defendant challenged the validity of the marks after being sued by the IPC for infringement. Although the Court of

Appeals observed that similar no-challenge clauses typically are enforceable in trademark licenses, the differing public interests underlying the use of certification marks—certification mark holders, unlike trademark holders, are required to license their marks to anyone who meets their criteria, in order to protect “free and open competition among producers and distributors of the certified product”—justify a different result. The court noted that enforcing the no-challenge provision likely would “leave IPC’s conduct unchecked by precluding challenges by the only individuals with enough economic incentive to bring them.” As the public interest in “ensuring free competition in the market for certified goods outweighs IPC’s interest in enforcing a contractual provision...,” the court affirmed the district court’s refusal to enforce the no-challenge provision against the defendant.

### Copyright

*S.a.r.l. Louis Feraud Int’l v. Viewfinder Inc.*, 2005 WL 2420525 (SDNY Sept. 29, 2005), refused on constitutional grounds to enforce a copyright judgment obtained in a French court based on defendant’s publication of photographs taken at plaintiff’s fashion show. The district court noted that defendant’s activities likely would not violate plaintiff’s intellectual property rights in the United States, because plaintiff’s dress designs are not copyrightable and because defendant’s activities would constitute fair use in any event (defendant was invited to attend the fashion show as a member of the press), but held that this alone did not warrant a finding that the judgment is unenforceable: “Copyright and trademark law are not matters of strong moral principle [but rather] economic legislation based on policy decision.... If the United States has not seen fit to permit fashion designs to be copyrighted, that does not mean that a foreign judgment based on a contrary policy decision is somehow ‘repugnant to the public policies underlying the Copyright Act and trademark law.’” The court did find, however, that the judgment impermissibly impinged on defendant’s free speech rights and, therefore, enforcement would be inconsistent with the First Amendment. That constitutional conflict prohibited an American court from acting to enforce the judgment.

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