

NOTES

Century 21 Real Estate Corp. v. LendingTree, Inc.: Making a Big Deal out of Nominative Use

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I. OVERVIEW

Through its Web site, LendingTree, Inc. (LT) offers a real estate broker referral program where consumers can input their location and receive results of up to four real estate brokers servicing that area.¹ Initially, the Web site listed by name the real estate companies that participated in the program and displayed a “for sale” sign depicting the blue and white Coldwell Banker logo with the word “SOLD” over it.² In printed material, LT stated that it “is affiliated with more than 700 certified brokers such as Coldwell Banker, Century 21, Prudential, ERA, and RE/MAX.”³ The parent company of Coldwell Banker, ERA, and Century 21 (CCE) sent LT a cease-and-desist letter demanding that LT discontinue use of CCE’s marks on its Web site.⁴ LT stopped using all logos on its Web site, but continued to list the company names in plain block letters.⁵ Dissatisfied with LT’s response, CCE brought suit against LT claiming unfair competition and trademark infringement pursuant to 15 U.S.C. §§ 1141(1) and 1125(a) and seeking a preliminary injunction.⁶

The district court granted the preliminary injunction, ruling LT’s use of the plaintiffs’ names was likely to cause confusion and that the defense of nominative fair use was not available to LT.⁷ On interlocutory appeal, the United States Court of Appeals for the Third Circuit reversed and *held* that to establish a claim for trademark infringement where the defendant asserts nominative fair use, the plaintiff must first prove likelihood of confusion, which the defendant may counter by showing

1. Century 21 Real Estate Corp. v. LendingTree, Inc., 425 F.3d 211, 215 (3d Cir. 2005).

2. *See id.*

3. *Id.*

4. *See id.* at 215-16.

5. *See id.* at 216.

6. *Id.*

7. *Id.*

that its nominative use of the mark is nonetheless fair. *Century 21 Real Estate Corp. v. LendingTree, Inc.*, 425 F.3d 211, 222 (3d Cir. 2005).

II. BACKGROUND

The term “nominative fair use” was coined to distinguish it from the statutory or “classic” defense of fair use, which arises when a defendant uses a trademark in its descriptive sense to reference its own product.⁸ Unlike classic fair use, nominative fair use occurs when a defendant uses a trademark to reference the trademark holder’s product.⁹ This sort of use is necessary because the mark is the only reasonable way to identify a particular thing.¹⁰ As a result, the mark is not being used in its primary, descriptive sense, which would call for the classic fair use defense, but rather, such nominative use of the mark invokes the secondary, trademarked meaning and therefore must be treated differently.¹¹

The concept of fair use was recognized by the courts early on, although not by name.¹² Writing for the United States Supreme Court, Justice Holmes set forth that a trademark may be used, so long as it is not used in a way that deceives the public.¹³ Thus, the holder of a trademark cannot prohibit a competitor from making a truthful collateral reference to the holder’s mark on the competitor’s own product.¹⁴

Further recognizing the necessity for permitting use of a mark where no other description would reasonably suffice, the United States Court of Appeals for the Ninth Circuit began to articulate boundaries between infringing and noninfringing use when the defendant used a trademark to refer to the trademark holder’s product.¹⁵ For use of a mark to be acceptable, the manner in which it is used may not imply an

8. See 15 U.S.C. § 1115(b)(4) (2000). For example, in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, KP used Lasting Impression’s mark “microcolor” to describe its line of permanent cosmetic makeup. 543 U.S. 111, 114 (2004). Since KP did not use the term as a mark, but instead just to describe its own goods, KP succeeded on a defense of classic fair use. *Id.*

9. *New Kids on the Block v. News Am. Publ’g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992) (holding that newspaper’s use of the trademarked name “New Kids on the Block” to conduct polls on the musical group New Kids on the Block constituted nominative fair use because newspaper’s use of the trademark referred to the plaintiffs themselves).

10. See *id.*

11. *Brother Records, Inc. v. Jardine*, 318 F.3d 900, 907-08 (9th Cir. 2003).

12. See *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924).

13. See *id.* at 368 (“When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo.”).

14. See *id.* at 369.

15. See *Volkswagenwerk Aktiengesellschaft v. Church*, 411 F.2d 350, 352 (9th Cir. 1969).

affiliation such as sponsorship or endorsement.¹⁶ Additionally, the Ninth Circuit considered the degree to which the trademark is used, taking into account use of distinctive lettering style or color scheme.¹⁷ Thus, use of a trademarked name in plain font is more likely to be considered noninfringing than use of the name as part of its trademarked logo.¹⁸

Continuing to grapple with this “other” kind of fair use, the Ninth Circuit reasoned that because the defendant was not referring to its own product, but to the trademark holder’s product, the use did not constitute unfair competition because the mark was only used to describe the product, not its source.¹⁹ Therefore, this was not an attempt to capitalize on consumer confusion.²⁰ The court named this practice “nominative fair use.”²¹

The Ninth Circuit categorized the concept of nominative fair use as an affirmative defense and set forth three elements that must be met in order to successfully rebut a charge of trademark infringement.²² First, the product or service referred to by the defendant must not be readily identifiable without use of its trademark.²³ Second, the defendant may use only so much of the trademark as is reasonably necessary to identify the product or service to which it refers.²⁴ Third, the defendant must not use the trademark in such a way that would imply sponsorship or endorsement by the trademark holder.²⁵

Years later, the Ninth Circuit elaborated that when a nominative fair use defense is raised, the aforementioned test should be applied in lieu of the likelihood of confusion test that was previously applied to trademark infringement cases.²⁶ The court reasoned that this new test is more appropriate because when use of a trademark is deemed nominative, the mark or words used by the defendant will be identical to those of the

16. *See id.* (explaining that in using the word “Volkswagen” in an advertisement for service and repair of Volkswagen vehicles, defendant may not use the word in such a way that would suggest he is part of the Volkswagen organization).

17. *See id.*

18. *See id.* (noting that the district court properly considered the appearance of the mark in defendant’s advertisement and that it did not appear in the distinctive Volkswagen lettering, nor encircled in the “VW” emblem).

19. *New Kids on the Block*, 971 F.2d at 306.

20. *Id.* at 307.

21. *Id.* at 308.

22. *Id.*

23. *Id.*

24. *Id.*; *see supra* note 16 and accompanying text.

25. *New Kids on the Block*, 971 F.2d at 308.

26. *Playboy Enter., Inc. v. Welles*, 279 F.3d 796, 801 (9th Cir.), *aff’d*, 30 F. App’x 734 (9th Cir. 2002).

plaintiff's trademark.²⁷ Since the Ninth Circuit's likelihood of confusion test focuses its analysis on the similarity of the marks, it would be nearly impossible for a defendant to succeed on a nominative fair use defense that analyzed likelihood of confusion.²⁸

However, while the Ninth Circuit finessed the justification for creating the nominative fair use defense, it struggled with determining when to apply it.²⁹ Even though it is clear that the defense is available to a defendant who uses a trademark to refer to the trademark holder's product, it was not always clear exactly to what the defendant was referring—the trademarked product, or ultimately, its own product.³⁰ To sort this out, the Ninth Circuit decided that the nominative fair use defense is appropriate where the defendant uses a trademark to describe the trademark holder's product, even in situations where the ultimate reference is to the defendant's own product.³¹ Classic fair use is therefore left to cases where the defendant uses a trademark to describe only its own product.³²

The vast majority of trademark infringement cases concerning fair use have been heard in the Ninth Circuit. The few circuits that have dealt with fair use issues have been less than receptive to the Ninth Circuit's nominative fair use analysis.³³ In *Pebble Beach Co. v. Tour 18 I Ltd.*, the United States Court of Appeals for the Fifth Circuit focused on the very issue that the Ninth Circuit struggled with: If the defendant is using a trademark in reference to the trademark holder's product, in order to ultimately describe its own product, should the nominative fair use defense still apply?³⁴ The court answered in the negative, reasoning that nominative fair use is more fundamentally understood as an assertion that the defendant is engaging in a noninfringing use that creates no likelihood of confusion.³⁵ The Fifth Circuit further argued that if nominative fair use prohibits the defendant from using the trademark in a way that suggests affiliation, sponsorship, or endorsement of the trademark holder, the defendant by definition cannot use the trademark

27. *See id.*

28. *See id.*

29. *Brother Records, Inc. v. Jardine*, 318 F.3d 900, 904-05 (9th Cir. 2003).

30. *See id.*

31. *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1151 (9th Cir. 2002).

32. *Id.*; *see supra* note 8 and accompanying text.

33. *See, e.g., PACCAR Inc. v. TeleScan Techs., L.L.C.*, 319 F.3d 243 (6th Cir. 2003) (declining to adopt the Ninth Circuit's nominative fair use defense); *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526 (5th Cir. 1998) (adopting the nominative fair use defense in part, applying it in conjunction with the likelihood of confusion test so as not to lower the standard of confusion).

34. *See Pebble Beach Co.*, 155 F.3d at 545.

35. *See id.*

to identify its own goods because that use would not be nominative and would suggest such affiliation, sponsorship, or endorsement.³⁶

Though it has not ruled explicitly on the issue of nominative fair use, the Supreme Court may have provided some guidance when it decided a case where the classic fair use defense was asserted.³⁷ Upon close scrutiny of the classic fair use defense provided in the statute, the Supreme Court concluded that Congress intended for a degree of consumer confusion to be compatible with fair use.³⁸ This was an important distinction because up until this point the circuit courts were divided; some ruled that the existence of confusion barred the fair use defense, others found that likelihood of confusion does not preclude a fair use defense.³⁹ Since nominative fair use is a derivative of classic fair use, the coexistence of consumer confusion and classic fair use mandated by the Supreme Court could be applicable to nominative fair use as well.⁴⁰

III. COURT'S DECISION

In the noted case, the Third Circuit declined to follow the nominative fair use defense as promulgated by the Ninth Circuit, opined that likelihood of confusion plays an important role in the nominative fair use analysis, and adopted a bifurcated approach that examines both likelihood of confusion and nominative fair use.⁴¹ After deciding that the changes made by LT to its Web site did not make the case moot, the Third Circuit analyzed the nominative fair use jurisprudence, paying special attention to burden shifting amongst the parties.⁴² It adopted a two-part analysis that first placed the burden of persuasion on the plaintiff to prove likelihood of confusion and then permitted the defendant to rebut this by asserting an affirmative defense of nominative fair use.⁴³ The defendant would succeed if the defendant could prove that its use was nonetheless fair.⁴⁴

In cases of fair use, both classic and nominative, the defendant uses the plaintiff's trademark in a way that is potentially confusing to

36. *Id.* at 546.

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

38. *See id.* at 118-19 (citing 15 U.S.C. § 1115(b)(4) (2000)).

39. *See id.* at 116.

40. *See* Century 21 Real Estate Corp. v. LendingTree, Inc., 425 F.3d 211, 221 (3d Cir. 2005).

41. *Id.* at 231-32.

42. *See id.* at 217-22.

43. *See id.* at 222.

44. *See id.*

consumers.⁴⁵ As a result, the Third Circuit found that the burden of proving likelihood of confusion should remain on the plaintiff asserting trademark infringement.⁴⁶ In assessing likelihood of confusion, though, the court found that the traditional likelihood of confusion test was too broad and did not permit the degree of confusion compatible with fair use.⁴⁷ Therefore, it set out to adopt a modified likelihood of confusion test.⁴⁸

The traditional test for likelihood of confusion in the Third Circuit comprised ten *Lapp* factors set forth in *Interspace Corp. v. Lapp, Inc.*⁴⁹ Because nominative use, by definition, involves the use of another's trademark, some of these factors are unworkable in the nominative fair use context, since they will always find a likelihood of confusion.⁵⁰ The court streamlined the likelihood of confusion test into a set of four factors that would be probative of confusion in a fair use setting.⁵¹

The court chose to examine (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, (3) the intent of the defendant in adopting the mark, and (4) the evidence of actual confusion.⁵² By choosing these four factors, the court felt it would be better suited to "assess whether consumers are likely to be confused by the use *not* because of its nominative nature, but rather because of the manner in which the mark is being nominatively employed."⁵³ By applying this analysis to the facts of the case, the court inferred that it

45. *See id.* at 223.

46. *Id.* at 221.

47. *See id.* at 222.

48. *See id.*

49. *Interspace Corp. v. Lapp, Inc.*, 721 F.2d 460, 463 (3d Cir. 1983). The test assessed the following factors: (1) degree of similarity between the owner's mark and the alleged infringing mark; (2) strength of the owner's mark; (3) price of the goods and other factors indicative of the care and attention expected of consumers when making a purchase; (4) length of time the defendant has used the mark without evidence of actual confusion; (5) intent of the defendant in adopting the mark; (6) evidence of actual confusion; (7) whether the goods, though not competing, are marketed through the same channels of trade and advertised through the same media; (8) the extent to which the targets of the parties' sales efforts are the same; (9) the relationship of the goods in the minds of consumers because of the similarity of function; and (10) other facts 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. *Id.*

50. *See Century 21 Real Estate Corp.*, 425 F.3d at 224.

51. *See id.*

52. *Id.* at 225-26.

53. *Id.* at 226.

would be able to determine the likelihood that a consumer would be confused as to the relationship between LT and CCE.⁵⁴

If CCE was able to meet its burden of showing likelihood of confusion, the burden would shift to LT to show that its use of the trademark consists of nominative fair use.⁵⁵ The Third Circuit addressed this approach as placing no burden whatsoever on the defendant until the plaintiff first establishes a *prima facie* case.⁵⁶ Furthermore, once the plaintiff establishes its case, the burden on the defendant is not to negate likelihood of confusion, but rather to assert and meet the criteria of the nominative fair use defense.⁵⁷

The Third Circuit declined to adopt outright the nominative fair use defense as prescribed by the Ninth Circuit primarily for two reasons.⁵⁸ First, the Third Circuit was concerned by the recent Supreme Court decision that rejected the Ninth Circuit's approach to fair use in a classic fair use case.⁵⁹ Second, the Third Circuit felt that the three-pronged test for nominative fair use applied by the Ninth Circuit suffered from a lack of clarity.⁶⁰

The Third Circuit found the first prong of the Ninth Circuit's test, that the product or service in question is one not readily identifiable without use of the trademark, to be confusing and incomplete because it only asked whether plaintiff's trademark was necessary to describe *plaintiff's* product.⁶¹ Because this prong failed to inquire as to the necessity of plaintiff's trademark to describe *defendant's* product, the Third Circuit modified the first prong to ask: "Is the use of plaintiff's mark necessary to describe (1) plaintiff's product or service *and* (2) defendant's product or service?"⁶² By moving the inquiry of whether use of plaintiff's mark is necessary to describe defendant's product to the first prong, the Third Circuit then modified the second prong, which initially required that only *so much* of the mark is used as is reasonably

54. *Id.* at 226-28. Despite remanding the case to the district court for a finding of likelihood of confusion, for illustrative purposes, the court applied the factors to the case. Upon doing so, it believed that the first, second, and fourth factors weighed in favor of LT. The court left open the third factor concerning LT's intent, stressing that in the fair use context, the inquiry is not whether LT intended to use the trademark, which of course it did, but rather whether LT used the trademark with the intent to confuse consumers as to its relationship with CCE. *Id.*

55. *See id.* at 228.

56. *Id.* at 232.

57. *Id.*

58. *See id.* at 228.

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

60. *See Century 21 Real Estate Corp.*, 425 F.3d at 228.

61. *See id.* at 229.

62. *Id.* at 228 (emphasis added).

necessary to identify the product or service, to now ask: “Is only so much of the plaintiff’s mark used as is necessary to describe plaintiff’s products or services?”⁶³ The Third Circuit felt that this clarified the second prong by limiting the inquiry to quantum of the mark used, where the Ninth Circuit also addressed necessity.⁶⁴

Finally, the Third Circuit chose to broaden the Ninth Circuit’s third prong, which required that the user did nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.⁶⁵ Reformulating, the Third Circuit asked: “Does the defendant’s conduct or language reflect the true and accurate relationship between plaintiff and defendant’s products or services?”⁶⁶ This modification examines not only the way in which the trademark was employed, but also gives weight to affirmative measures taken by the defendant to disclaim endorsement by the plaintiff.⁶⁷

The majority opinion held that this bifurcated approach, placing the burden on the plaintiff to show likelihood of confusion, then permitting the defendant to rebut by asserting the affirmative defense of nominative fair use, accomplishes several objectives.⁶⁸ First, it places the appropriate burden on the correct party, initially saddling the plaintiff with the burden, and then shifting it to the defendant not to negate the plaintiff, but to establish nominative fair use.⁶⁹ Second, the modified likelihood of confusion test, in conjunction with the clarified elements of the nominative fair use defense, permits a degree of confusion while finding the use to be nominative, comporting with the Supreme Court’s holding in *KP Permanent Make-Up*.⁷⁰

One judge filed a separate opinion. While he concurred with the premise of the majority’s holding, he strongly dissented as to the approach the majority adopted.⁷¹ Judge Fisher first took issue with the nominative fair use defense, both as posited by the Ninth Circuit and as modified by the Third Circuit.⁷² In either instance, Judge Fisher asserted that the nominative fair use defense is not truly a defense but is a likelihood of confusion test.⁷³ The problem with this approach, Judge

63. *Id.* (emphasis added).

64. *See id.* at 230.

65. *See id.* at 228.

66. *Id.*

67. *See id.* at 231.

68. *See id.* at 232.

69. *See id.*

70. *See id.*

71. *See id.* at 233 (Fisher, J., concurring in part, dissenting in part).

72. *Id.* at 233-35.

73. *See id.*

Fisher argues, is that the Ninth Circuit, by replacing the likelihood of confusion test with the nominative fair use defense, shifts the burden and impermissibly encumbers the defendant with showing that there is no likelihood of confusion.⁷⁴ Likewise, in the Third Circuit, after the plaintiff has established likelihood of confusion, assertion of the defense practically requires the defendant to negate the plaintiff's showing of likelihood of confusion since the defense is truly a gauge for likelihood of confusion.⁷⁵ According to Judge Fisher, both approaches are impermissible under the Supreme Court's holding in *KP Permanent Make-Up*.⁷⁶

Judge Fisher then attacked the majority's modified likelihood of confusion test, the first part of its bifurcated analysis.⁷⁷ As a result of the "bare-bones" *Lapp* test created by the majority, the plaintiff may establish likelihood of confusion on as little as a single factor.⁷⁸ Consequently, the burden is shifted to the defendant to negate such confusion.⁷⁹ As described by the majority in dicta, CCE may establish likelihood of confusion by showing that LT intended to create confusion as to its relationship with CCE.⁸⁰ Judge Fisher was concerned that the indicia of intent outlined by the majority bore a striking resemblance to the three elements of the nominative fair use defense.⁸¹ Accordingly, the holding in *KP Permanent Make-Up* that the defendant carries no burden of negating confusion is violated by the majority's bifurcated approach.⁸²

IV. ANALYSIS

Both the Third Circuit's decision in the noted case and the concept of nominative fair use in general have received considerable scholarly criticism.⁸³ The problem lies with the lack of statutory authority to guide the courts when applying this doctrine. Unlike the classic fair use

74. *See id.* at 234-35.

75. *See id.* at 232.

76. *See id.* at 233.

77. *Id.* at 238.

78. *See id.* at 239.

79. *See id.* at 238.

80. *See id.* at 240-41.

81. *See id.* at 241.

82. *See id.* at 245.

83. *See, e.g.,* G.M. Filisko, *Trademark Ruling Creates Confusion*, 4 NO. 43 A.B.A. J. E-REP. 2 (2005) (quoting trademark scholar J. Thomas McCarthy ("I've spent many decades studying trademark law, and this is one of the most confusing cases I've seen.")); Derek J. Westberg, *New Kids on the Block v. News America Publishing, Inc.: New Nominative Use Defense Increases the Likelihood of Confusion Surrounding the Fair Use Defense to Trademark Infringement*, 24 GOLDEN GATE U. L. REV. 685 (1994) (criticizing the nominative use doctrine as substantively equivalent to fair use).

defense, nominative fair use is not codified, but rather is a judicially created concept.⁸⁴ In the noted case, both the majority and dissenting opinions found their solution better suited to defendants because it does not place the burden on the defendant.⁸⁵ However, the dissent appears to be hung up on the semantics of nominative fair use—that even though it is referred to as a defense, it is in actuality just a test.⁸⁶ This is the point at which Judge Fisher spirals into a bit of circular logic. He seems to argue that the Ninth Circuit replaced the likelihood of confusion test with a nominative fair use test, which it mistakenly refers to as an affirmative defense.⁸⁷ Nonetheless, applying it as a defense shifts the burden to the defendant, and since this burden is not in truth a defense, but rather a likelihood of confusion test, the defendant now bears the burden of negating likelihood of confusion.⁸⁸ This, of course, is impermissible under *KP Permanent Make-Up*.⁸⁹

Both the majority and the dissent appear to arrive at the correct answer, despite the complicated test employed by the former and the confusing logic on the part of the latter. However, the effort of the majority in creating its bifurcated analysis is not without critics of its own.⁹⁰ What is most disappointing is that after a long and careful analysis of nominative fair use jurisprudence, the three elements of the nominative fair use defense created by the Third Circuit are nearly identical to the test employed by the Ninth Circuit.

Regardless of the test employed, the inquiry may continue to come back to whether a nominative fair use defense is truly necessary. Some scholars believe the nominative fair use defense serves a meaningful purpose.⁹¹ However, less than half of the federal circuits have encountered the nominative fair use doctrine. Even the Ninth Circuit, which has dealt with the vast majority of nominative fair use cases, has struggled with the nuances of the doctrine.⁹² When a defendant uses the

84. Filisko, *supra* note 83.

85. *See id.*

86. *See Century 21 Real Estate Corp.*, 425 F.3d at 233 (Fisher, J., dissenting).

87. *See id.*

88. *See id.* at 234-35.

89. *See id.* at 235 (referencing the holding in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 118 (2004), that the defendant bears no burden to negate confusion).

90. *See* Filisko, *supra* note 83, (quoting J. Thomas McCarthy (“The majority made a mountain out of a molehill, and at so many points, they made something that’s fairly straightforward very complicated.”)).

91. *Id.* (quoting Christine Haight Farley (“There’s a real need for this kind of defense.”)).

92. *Brother Records, Inc. v. Jardine*, 318 F.3d 900, 905 (9th Cir. 2003) (“[W]hether the defendant’s use of the mark refers to the plaintiff’s product at all—and thus whether classic fair use analysis or nominative fair use analysis applies—is not clear”).

plaintiff's trademark to refer to the plaintiff's product, it seems inevitable that the defendant is ultimately referring to the defendant's own product. Ironically, a defendant may assert a classic fair use defense when it uses the plaintiff's trademark to refer to its own product. The question remains, then: If the facts that give rise to a nominative fair use defense also permit the defendant to assert the classic fair use defense, is the nominative fair use doctrine necessary?

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