



# ideas on intellectual property law

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in this issue

## Roots of change when it comes to likelihood of confusion

*Third Circuit issues new test for trademark fair use*

## Fourth Circuit allows Falwell critic to maintain “gripe” site

## License to sue?

*Agreement rights determine standing  
to pursue patent infringement actions*

## Public use and private labs: A bar to patentability?



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# Roots of change when it comes to likelihood of confusion

## *Third Circuit issues new test for trademark fair use*

The federal circuit appeals courts are split in trademark infringement cases where the defendant claims its use of the plaintiff's trademark was nominative and fair. The U.S. Court of Appeals for the Third Circuit has muddied the waters in these cases by departing from widely applied Ninth Circuit precedent to establish a new test in *Century 21 Real Estate Corp. v. LendingTree Inc.*

### **A TREE GROWS IN THE THIRD CIRCUIT**

Century 21, Coldwell Banker and ERA alleged LendingTree's use of their trademarks on its Web site constituted trademark infringement. LendingTree is an Internet business that helps consumers identify and select lenders, real estate brokers, insurance companies and other financial services companies. Its offerings include a real estate referral service, where consumers input certain data, such as location, and LendingTree provides information on up to four real estate companies that work in the area.

The real estate companies participate in a referral network. At the time of the case, the network consisted of more than 650 broker member companies. At least 257 of the member companies operated a Century 21, Coldwell Banker or ERA franchise.

After their cease-and-desist letters failed to bring the desired results, the plaintiffs sought a preliminary injunction. Despite LendingTree voluntarily making some modifications to its Web site, the district court granted a preliminary injunction against LendingTree, finding LendingTree's use of the plaintiffs' names was likely to cause consumer confusion, and LendingTree didn't satisfy the elements of the nominative use defense. LendingTree appealed to the U.S.

Court of Appeals for the Third Circuit, which reversed the district court.

### **NINTH CIRCUIT PLANTS A SEED**

The Ninth Circuit first crafted a test for nominative fair use in 1992. Nominative use occurs when the defendant uses the plaintiff's trademark to refer to the *plaintiff's* product, such as a mechanic advertising that he repairs Volkswagens. The Ninth Circuit test does *not* require a plaintiff to prove a likelihood of confusion by the defendant's use of the mark.

To prevail under the Ninth Circuit test, a defendant must prove:

1. The product or service in question is not readily identifiable without the trademark's use,
2. Only as much of the mark is used as is reasonably necessary to identify the product or service, and
3. The user did nothing that would — in conjunction with the mark — suggest sponsorship or endorsement by the trademark holder.

After examining the district court's application of the test in this case, the Third Circuit created its own three-part test and sent the case back to the district court for reconsideration.

### **THIRD CIRCUIT BRANCHES OFF**

The Third Circuit adjusted the Ninth Circuit test to include a slightly different set of considerations. Under its modified inquiry, once the plaintiff



proves a likelihood of confusion, the defendant must show that:

**1. The mark's use is necessary to describe the plaintiff's product or service and the defendant's product or service.** The Third Circuit's new prong requires inquiry into the necessity of using the trademark to trade both the plaintiff's and defendant's products. The Ninth Circuit only inquires as to the necessity of using the trademark to describe the plaintiff's product. A defendant can satisfy this prong if its identification of the plaintiff's product or service would be much more difficult without the mark's use. The more dependent the ready identification of the defendant's product is on describing the plaintiff's product through use of the mark, the more likely it is that fair use occurred.

**2. The defendant uses only as much of the mark as is necessary to describe the plaintiff's products or services.** The new second prong examines only whether the amount of the plaintiff's mark used was appropriate. While the Ninth Circuit's original test focused solely on the amount of the mark used, its case law has expanded the second-prong inquiry to consider also the defendant's need to use the mark. The Third Circuit moved this assessment to its first prong. Thus, under its second prong, a court should scrutinize *only* the way the defendant portrays the mark — does it employ the plaintiff's distinctive font or does it just use block letters spelling out the plaintiff's name?

**3. The defendant's conduct or language reflects the true and accurate relationship between the plaintiff's and defendant's products or services.** Whether endorsement is implied might not truly reflect whether the use is fair — a plaintiff and defendant might have an endorsement relationship that the defendant's use of the mark doesn't accurately reflect. But the mere presence or use of a mark doesn't imply *un*fairness. A court also should consider whether any disclaimer represents an affirmative action that effectively negates any inaccurate implication of sponsorship or endorsement by the plaintiff. The Third Circuit broadens the question beyond the Ninth Circuit's focus on the user's conduct.

If the court finds that the defendant has proved all the above, the defendant's use is fair — even if

likelihood of confusion exists. The defendant is then allowed to use the plaintiff's mark in this limited way.

## THE APPLE FALLS FAR

In this case, the district court looked at the first prong only in regard to the *defendant's* product. On remand, the Third Circuit instructed the district court to consider the simplicity of description and the likelihood that consumers will understand a given reference to the plaintiff's services without use of the mark.



The Third Circuit pointed out that the district court incorrectly predetermined the outcome of the second prong by its finding as to the first prong. Because it found the use of the plaintiff's marks wasn't necessary to identify LendingTree's services as a whole under the first prong, the use couldn't possibly be only so much as was necessary.

As for the third prong, the district court concluded that an ordinary consumer would look at LendingTree's Web site and conclude there was some affiliation between the parties, even though LendingTree displayed a disclaimer on its Web site. So the Third Circuit sent the case back to the district court for further proceedings consistent with its opinion.

## TURNING OVER A NEW LEAF

The Third Circuit's decision is likely to confuse matters in cases involving nominative fair use. Courts in circuits that haven't specifically addressed the defense now have two tests to choose from, leading to less predictable results and the potential for forum shopping. 💡

# Fourth Circuit allows Falwell critic to maintain “gripe” site

The U.S. Court of Appeals for the Fourth Circuit has reversed a district court order that had required a plaintiff to stop maintaining his Web site critical of Reverend Jerry Falwell because of trademark infringement and false designation of origin claims. The case could remove an arrow from the quiver of the prominent businesses and figures typically targeted by so-called “gripe sites” — Web sites dedicated to criticizing an idea, person or company.

## BASIS OF FALWELL’S CLAIMS

Falwell is a nationally known minister and commentator. He holds common law trademarks in “Jerry Falwell” and “Falwell.” The plaintiff launched his site, [www.falwell.com](http://www.falwell.com), to criticize Falwell’s views. The plaintiff never sold any goods or services through the site.

The plaintiff’s site includes a disclaimer at the top of its home page, reading: “This website is NOT affiliated with Rev. Dr. Jerry Falwell or his ministry. If you would like to visit Rev. Falwell’s website, you may *click here*.” Clicking leads visitors to the official site of Jerry Falwell Ministries, [www.falwell.com](http://www.falwell.com). Falwell’s site garners about 9,000 hits per day, while the plaintiff’s site gets



200. The gripe site made no measurable impact on the number of visits to Falwell’s site.

Falwell twice sent the plaintiff cease-and-desist letters. The plaintiff then filed suit seeking a declaratory judgment of noninfringement. Falwell fired back with claims for trademark infringement, false designation of origin and other claims. The district court enjoined the plaintiff from using Falwell’s mark and required him to transfer the domain name to Falwell.

## NO LIKELIHOOD OF CONFUSION FOUND

The Fourth Circuit focused on the likelihood of confusion — an essential element for both infringement and false designation claims under the Lanham Act. It analyzed each of several factors relevant to the confusion question:

**Distinctiveness of mark.** The court found that Falwell’s mark is distinctive, and the plaintiff’s domain name closely resembles it. But the plaintiff’s Web site looks nothing like Falwell’s.

**Similarity of goods or services offered.** The parties don’t offer similar goods or services, instead putting forth opposing ideas. According to the court, even a quick glance at the gripe site would make obvious the fact that Falwell didn’t authorize its content. Further, the plaintiff clearly intended only to provide a forum for criticizing Falwell’s ideas, “not to steal customers.”

**Existence of actual confusion.** When the court looked at whether actual confusion existed, it found the fact that people contacted the ministry to report antithetical content on the plaintiff’s site demonstrated that those who arrived at the plaintiff’s site while looking for Falwell’s site quickly realized that Rev. Falwell wasn’t the source of the content.

## INITIAL-INTEREST-CONFUSION DOCTRINE REJECTED

Falwell argued that, under the “initial-interest-confusion” doctrine, he was still entitled to prevail. This relatively new and sporadically applied doctrine holds that “the Lanham Act prohibits a competitor from luring away potential customers of a producer by initially passing off its goods as those of the producer, even if the initial confusion about the source of the goods is dispelled by the time of the sale.”

The court rejected the argument, stating that it had never adopted the doctrine, instead analyzing likelihood of confusion as to the ordinary consumer. When dealing with domain names, the court evaluates an allegedly infringing name in conjunction with the corresponding site’s content.

The court also observed that the doctrine wouldn’t apply in this case, because the few appellate courts that imposed liability under it did so only in cases involving infringement done for financial gain — a factor absent here. Confusion that has little or no meaningful effect in the marketplace is of little or no consequence in the court’s analysis.

## LITTLE RECOURSE AGAINST GRIPE SITES

The Falwell case is particularly notable because the court concluded that a financial profit motive doesn’t exist with gripe sites. Those targeted by such sites may have a case if they can find some profit motive, but they otherwise likely have little recourse. 💡

# License to sue?

*Agreement rights determine standing to pursue patent infringement actions*

Patent licensees obtain the right to use patented inventions, and, in some cases, a licensee can become an “effective patentee” with standing to pursue infringement actions under the Patent Act. But, as the defendant in *Sicom Systems v. Agilent Technologies* learned the hard way, the licensing agreement can give or take away the right to sue infringers.

## OH, CANADA

In January 1998, Sicom executed a patent licensing agreement with the Canadian government. Sicom’s founding members developed the patented invention in connection with a government contract.

Under the agreement, Canada retained legal title to the patent and reserved the rights to continue operating under the patented technology, veto proposed sublicenses, grant contracts to further develop the patent, sublicense any improvements or corrections developed by Sicom, and sue for infringement except for commercial infringement actions. The agreement also prohibited Sicom



from assigning its rights without Canada’s approval or bringing suit without first notifying Canada.

Sicom filed an action in the United States against three commercial defendants, but Canada declined to participate. The district court dismissed the case, finding that Sicom didn’t possess the necessary substantial rights to qualify as an “effective patentee” entitled to standing for infringement purposes. The court noted, among other things, that Sicom’s ability to assign the patent was restricted, rendering its interest in the patent to that of a licensee that cannot sue unless it holds all substantial rights.

## Licensee's good standing undermines right to bring suit

In another standing case decided on the same day, the Federal Circuit denied standing to a licensee because it made the mistake of complying with its licensing agreement. The licensee in *MedImmune v. Genentech* wanted to challenge the validity of the patent covered by the agreement so it could avoid paying future fees.

The Declaratory Judgment Act (the statute applied in this case) and the U.S. Constitution require that there be a “case or controversy” before a federal court can hear a case. In patent validity cases, this means the challenging party must have a reasonable apprehension of being sued *and* be presently engaged in activity that constitutes infringement. In *MedImmune*, the licensee paid its royalties on a timely basis and hadn't breached the agreement.

So, the Federal Circuit found that the case didn't raise the question of whether invalidity could be used as a defense for default on the license because there was no possibility of such a suit — the licensee wasn't in default. It ruled that the licensor-licensee relationship alone doesn't create a definite and concrete controversy of sufficient immediacy and reality.

### A PATENTEE BY ANY OTHER NAME

On appeal, Sicom argued that whether its agreement with Canada was a license or an assignment wasn't dispositive on the standing issue. Sicom claimed it held all of the substantial rights in the invention because it retained the exclusive right to sue commercial infringers.

The Federal Circuit began by acknowledging that patentees entitled to seek infringement remedies

under the Patent Act include not only the original patentee but also successors in title. But if a patentee transfers all substantial rights — those rights sufficient for the transferee to be deemed the effective patentee — the transfer amounts to an assignment.

The assignee can then pursue infringement actions in its own name. Each licensing and assignment is unique, requiring case-by-case analysis of the parties' intentions and the rights granted by the agreement to determine if all substantial rights were transferred.

### ALIENABLE RIGHTS

The court referred to five recent cases where it analyzed whether an agreement transferred all or fewer than all substantial patent rights. In four of these cases, a lack of standing was based on a variety of agreement provisions, including:

- ① The patentee was required to consent to litigation,
- ① The patentee retained the right to prevent assignment,
- ① The agreements were silent on the patentee's ability to grant additional licenses in the area of exclusivity,
- ① The patentee retained the right to bring its own infringement actions,
- ① The transferee couldn't sue for an infringement, if it so chose, and
- ① The patentee retained the right to participate in the transferee's lawsuits.

The court did recognize standing in the fifth case. It found it particularly dispositive that the agreement transferred the right to sue for infringement, subject only to the obligation to inform the patentee.

### THE LAST STAND

Under the agreement at issue, Sicom was the sole licensee, but Canada reserved numerous rights, including the right to sue for *noncommercial* infringement. Further, Sicom didn't hold the rights to settle litigation without consent from Canada or

to sublicense or assign its rights without approval. Citing these and other reservations of rights by Canada, the court held that Sicom couldn't bring a lawsuit for infringement unless Canada participated in the action.

The court wasn't persuaded by Sicom's assertion that, because it was suing for *commercial* infringement, the court shouldn't consider factors outside the scope of facts in the case at hand. The court called Sicom's focus on the parties in the suit "misplaced" because the court has established that

the parties' intentions and the rights granted *are* relevant to the question of whether all substantial patent rights were conveyed and the plaintiff has standing.

### DON'T BE PREEMPTED

The court's decision in *Sicom* makes clear the potential implications of licensing agreements beyond the patented invention's immediate use. An agreement that doesn't transfer all substantial rights could preempt the availability of infringement protections down the road. 💡

## Public use and private labs: A bar to patentability?

Under federal patent law, certain public uses of an invention can invalidate its patent. But does this include the inventor's own internal use? The Federal Circuit has answered that question in *Invitrogen Corp. v. Biocrest Manufacturing*.

The public use bar invalidates a patent if the invention was in *public* use or on sale in the United States and ready for patenting more than one year before the date of the patent application. Invitrogen used its patented process in its own laboratories more than a year before the application date but didn't sell the process or any products made with it. The company also kept the use confidential. When Invitrogen brought an infringement claim, the defendants raised the public use bar to invalidate the patent.

The test for public use is whether the purported use was accessible to the public or commercially exploited. The court considers, among other things:

- ① Evidence relevant to experimentation,
- ① The nature of the activity that occurred in public,
- ① Public access to the use, and
- ① Confidentiality obligations imposed on members of the public who observed the use.

The inventor's own actions can constitute public use if the inventor is making commercial use of the invention — even under circumstances that preserve its secrecy. And a confidentiality agreement or similar expectation of secrecy may negate a public use where no commercial exploitation occurred.

In *Invitrogen*, the invention wasn't given or sold to another, or used to create a product given or sold, and it was maintained under a strict secrecy obligation. The court held that an inventor's own work cannot be used to invalidate patents protecting his or her own later inventions unless the inventions are on sale or used publicly more than one year before filing.

Ensuring confidentiality and imposing restrictions on the internal use of inventions can help you avoid the public use bar. Otherwise you may run into problems when seeking a patent or later in litigation.