

Diluting FTDA Claims:

The Supreme Court Narrows The Federal Trademark Dilution Act, But By How Much?

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**A commentary article
reprinted from the
April 21, 2003 issue of
Mealey's Litigation Report:
Intellectual Property.**

Commentary***Diluting FTDA Claims:******The Supreme Court Narrows
The Federal Trademark Dilution Act, But By How Much?***

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In its recent decision in Moseley v. Secret Catalogue, Inc.,¹ the U.S. Supreme Court announced a new standard for the application of the anti-dilution portions of the Federal Trademark Dilution Act ("FTDA").² Unfortunately, the Court left a number of important issues open for future resolution. In particular, while the Court in Moseley found that the holder of a famous mark must prove "actual dilution" in order to state a valid claim under the FTDA, the Court provided little guidance about what "actual dilution" means, much less how to prove it. More fundamentally, while the Court's opinion may ultimately make it more difficult for the holders of famous marks to protect against the incremental dilution of their marks there is unlikely to be any significant decrease in anti-dilution litigation. In fact, the only significant impact that the Moseley decision may have is that holders of famous marks will be required to present more expensive and complex forms of proof to meet the Court's "actual dilution" standard.

The Facts

Victor and Cathy Moseley operate a retail store in Elizabethtown, Kentucky which was originally known as Victor's Secret. Victor's Secret sells primarily adult-oriented goods and novelties, including lingerie, adult movies and other novelty items. In February of 1998, Victor's Secret published a local advertisement which advertised the opening of the Victor's Secret Elizabethtown store and touted that the store carried lingerie for women. An army colonel who saw the ad was offended that the Moseleys appeared to be capitalizing on the Victoria's Secret trademark and brought the matter to the attention of the owners of the Victoria's Secret mark. When the owners confronted the Moseleys, they partially conceded and agreed to change the name to "Victor's Little Secret." Unappeased, the owners of the Victoria's Secret mark sued for trademark infringement, unfair competition, trademark dilution and various state law claims. The parties filed cross motions for summary judgment and the court ruled in favor of the Moseleys on all of the trademark infringement and unfair competition claims. However, it ruled in favor of Victoria's Secret on the trademark dilution claims, and the Sixth Circuit Court of Appeals affirmed.³

The Court of Appeals' determination that Victoria's Secret had established a viable dilution claim was based on the "mental association" analysis that has its roots in the state anti-dilution laws. Under that standard, the Court of Appeals found that the Moseley's use of the name "Victor's Little Secret" was likely to cause consumers to associate "Victoria's Secret" with the Moseley's

adult-oriented sex shop (tarnishment) and to link "Victoria's Secret" to the Moseley's unauthorized establishment (blurring).

Legal Background

The Supreme Court granted certiorari to address a conflict that had arisen among the circuit courts regarding the quantum of proof required to support a federal trademark dilution claim. Several circuits, typified by the Second Circuit's opinion in Nabisco, Inc. v. PF Brands, Inc.,⁴ followed an approach which did not require the holder of a famous mark to prove an actual economic injury to the value of the trademark in order to establish a dilution claim. Rather, applying a test adapted from the more traditional trademark infringement test for determining the likelihood of confusion, these circuits evaluated a number of factors to determine whether dilution had occurred and typically equated dilution with mental association. Other courts, exemplified by the Fourth Circuit opinion in Ringling Bros. Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development,⁵ required that the owner of a famous mark prove actual *economic* harm in order to sustain a federal dilution claim.

The Nabisco, Ringling Bros. and Moseley opinions all include a rather lengthy recitation of the history and background of dilution theory from its earliest beginnings in a 1927 law review article,⁶ through the enactment of state anti-dilution statutes in the 40s and 50s, to Congressional adoption of the FTDA in 1995. That historical development reveals some important differences between the state and federal statutes which ultimately influenced the Court's opinion in Moseley.

In particular, state anti-dilution statutes typically provide protection from both: (1) "dilution of the distinctive quality of a trade name or trademark"; and (2) the "likelihood of injury to business reputation" (or "tarnishment"). However, there are some differences in the language of the state and federal statutes. Noting these differences, the Court observed that the FTDA arguably provides only protection from "blurring," despite the fact that the legislative history of the FTDA also refers to the concept of tarnishment. Regardless of whether the FTDA actually provides protection from "tarnishment" as well as blurring, the Court's interpretation of the FTDA, as discussed below, results in more narrow protection than the state counterparts.⁷

The Court's Opinion

Justice Stevens, writing for the Court, essentially drew a line between the authority which required only that the junior use of the mark create a mental association in the consumer's mind with the famous mark — a traditional test of "likelihood of confusion" — and the more stringent proof of actual, *economic* harm (e.g. lost profits) required by the Ringling Bros. opinion. The Court ultimately rejected both lines of authority, instead announcing an "actual dilution" standard which requires more than a mere mental association but less than actual economic injury. Unfortunately, the majority offered little guidance in their opinion as to what evidence or facts might constitute proof of actual dilution.

The FTDA provides that the owner of a famous mark shall be entitled to an injunction against another person's commercial use of a mark or trade name if the use "causes dilution" of the distinctive quality of the mark.⁸ This standard requires that the holder of the mark demonstrate: (1) the mark is famous; (2) the mark is distinctive⁹; (3) the mark was used by the junior user in commerce; (4) the junior use occurred after the mark had become famous; and (5) the junior use caused *actual* dilution¹⁰ of the famous, distinctive mark.

The Court rejected the Sixth Circuit's standard that the causation of a mere mental association was sufficient to establish actual dilution. The state statutes supporting such a standard, unlike the federal statute, typically speak in terms of the "likelihood" of harm (a concept borrowed from traditional trademark infringement analysis) whereas the federal statute unambiguously requires that the junior use cause *actual* dilution. Thus, under the federal statute, it is not enough to

prove that the junior use creates a mental association in a consumer's mind with the senior user. *Actual* dilution must be shown and the *likelihood* of blurring or tarnishing is simply not enough.

However, the Court stopped short of equating "actual dilution" with actual economic harm in the form of lost sales or profits. In fact, the Court specifically rejected any suggestion by the Ringling Bros. opinion that a showing of actual economic injury was required.

Unfortunately, while the Court identified the new standard, it did little to explain how that standard is supposed to be applied. What is required to prove "actual dilution?" Both the majority opinion and the concurrence are noticeably silent on this issue, in large part because the evidence offered by Victoria's Secret was so obviously insufficient on the record before the Court. All that Victoria's Secret presented was proof that one consumer, the offended army colonel, made a mental association to Victoria's Secret when viewing the advertisement for Victor's Secret. Based on this evidence, the Sixth Circuit concluded that there was a likelihood that consumers would make such an association and that the association would both blur and tarnish the Victoria's Secret mark.

However, there was no evidence that the army colonel's "mental association" actually impacted his impression of the Victoria's Secret mark or changed his conception of what the Victoria's Secret mark stood for. Moreover, Victoria's Secret did not offer any expert opinion that the Moseley's use actually impacted the strength of the mark, nor did it present any survey data that might have shown that a wide variety of consumers' views of the mark were impacted by the Moseley's use of a similar mark. In any event, because there was no evidence of actual blurring or tarnishing, the Court found little difficulty reversing the Sixth Circuit's opinion.

Turning to the quantum of proof required, the Court offered little guidance. The Court rejected the pleas from some of the *amici* that requiring proof of actual dilution would be difficult and would likely require a battle of expensive and time consuming surveys. The Court recognized that while the proof might be difficult to come by in some cases, that fact did not justify altering the statutory protections Congress had enacted. While the Court did observe that it would be possible in some cases to prove "actual dilution" by circumstantial evidence (e.g., where the junior and senior marks are identical) rather than direct evidence, it ultimately left the specifics concerning proof of actual dilution largely undefined.

Justice Kennedy's concurring opinion focused on the term "capacity" in the statutory definition of dilution.¹¹ Requiring proof of actual dilution requires proof that the *capacity* of the mark to distinguish goods or services is adversely impacted.¹² According to Justice Kennedy, the capacity concept imports the notion that both the present and the potential future power of the mark to identify and distinguish particular goods and/or services may be adversely impacted. He went on to explain that diminishment of a famous mark's *capacity* to distinguish goods or services "can be shown by the probable consequences flowing from use or adoption of a competing mark." Unfortunately, because Victoria's Secret had presented no evidence of actual blurring or tarnishing, there was no reason for Justice Kennedy to apply this analysis to the facts. Accordingly, while the concurring opinion does provide another, and perhaps lower, standard to establish "actual dilution," that standard is no more clearly defined than that of the majority.

The Aftermath

When the dust settles, it is not clear whether the Moseley opinion will create a significant legal impediment to dilution claims. First, the opinion clarifies that no proof of actual economic injury is required. This is actually a significant victory for the holders of famous marks insofar as the Court rejected the virtually unattainable standard set forth in the Ringling Bros. opinion. Second, proof of actual dilution, as noted by Justice Kennedy, may only require proof of the *impairment of the capacity of the mark to distinguish* goods or services. Proving that the *capacity* of the mark has been impaired may be less difficult than proving that the mark's actual ability to distinguish has

in fact been impaired. Lower courts may seize on Justice Kennedy's focus on capacity to require no more than a showing that the "natural and probable consequence" of the junior use is to impair the distinguishing capacity of the mark. This standard is arguably not far from the pre-Moseley burden of proof discussed in the Nabisco opinion and others.

One interesting outcome is that the Court's opinion may actually make it more difficult to protect a famous mark under the FTDA the more famous it is. The more famous a mark is, the less likely it will be that consumers will find that a marginal junior use actually impairs the distinguishing capability of the mark. Is there any realistic possibility that Victoria's Secret will be able to establish that there are any consumers who actually view Victoria's Secret's goods or services as less distinctive because a sex shop in rural Kentucky uses a similar name? Further, because the FTDA only applies to "famous marks," the holder may have to walk a fine line between proving that the mark is famous enough to qualify for dilution protection, but not so famous that proof of "actual dilution" becomes a practical impossibility.

The decision may make it more difficult (or at least more expensive) for the holder of a famous mark to determine how to protect its mark. When Victor's Little Secret first opened with one store in rural Kentucky, focusing mostly on adult oriented sex items, there is very little possibility of proving actual dilution. What if the Moseley's open a second store, or a third, or a nationwide chain? What if they open a store right next to or across the street from an existing Victoria's Secret store? What if they start focusing exclusively on upscale lingerie? What if they start marketing regionally or nationally using a similar catalog? Under the Court's decision in Moseley, Victoria's Secret may have the difficult choice of waiting to see if Victor's Little Secret or other marginally encroaching users ever cross a line whose exact location and contours are unknown and undefined. The alternative is filing expensive dilution claims (along with expensive expert testimony and consumer surveys) when the prospects of success are slim.

Ultimately, it is not clear that holders of famous marks will significantly change their litigation strategy when it comes to dilution claims. If a holder sits by and allows junior users to marginally encroach upon the mark, they run the risk of subjecting themselves to a laches defense.¹³ For most holders, this risk will likely be too much to bear. As a practical matter, most holders are likely to continue to vigorously protect their marks from encroaching users and will not allow the value of their marks to be threatened simply because the "actual dilution" standard is uncertain. It may be that the only significant difference in FTDA practice after Moseley will be that the cost of securing dilution protection will involve more expensive and complex forms of proof which may now be necessary to establish "actual dilution." For the holders of famous marks, this increased cost is not likely to deter their efforts to protect their valuable trademarks from encroaching users.

Ultimately, FTDA claims, like many other branches of intellectual property law, come down to a balance between the property rights of the trademark owner and free competition. In the Moseley case, it is very doubtful that the Moseley's use of the name "Victor's Little Secret" was likely to cause any actual impairment to the Victoria's Secret mark. In such a case, the absence of any direct or circumstantial evidence to prove actual impairment of the mark's distinguishing capacity is not surprising. Nor does it appear that Victoria's Secret inability to obtain dilution protection in this case is an unfair result.

If the dilution protection is cast too broadly, the claim may lead to anti-competitive abuses. On the other hand, the holder of a famous mark who has invested substantial time and money to create a federally recognized property interest should be entitled to protection of that investment. Under the facts and evidence in Moseley, that balance simply did not support Victoria's Secret. However, in a case where the junior use is more substantial, similar, or directly competitive, demonstrating that there is an actual impairment of the mark's distinguishing capacity may be more expensive after Moseley, but not impossible to obtain.

Finally, it remains to be seen whether Congress will now step in to clarify what was intended by the FTDA. One would not be surprised to see a legislative reaction in light of the strong lobbying power of holders of "famous marks" in a number of profitable, respected, and politically powerful industries. A full court press may be on the way. In the meantime, holders of famous marks will undoubtedly continue to bring dilution claims, as they test out different ways to prove actual dilution.

ENDNOTES

1. 537 U.S. ___ (2003); 123 S.Ct. 1115 (2003).
2. 15 U.S.C. § 1125, *et seq.*
3. 259 F.3d 464 (6th Cir. 2001).
4. 191 F.3d 208 (2d Cir. 1999).
5. 170 F.3d 449 (4th Cir. 1999).
6. Frank Shechter, *Rational Basis of Trademark Protection*, 40 Harv. L. Rev. 813 (1927).
7. The Moseleys did not argue on appeal that the FTDA does not protect against "tarnishment" as well as blurring. While the Court observed, in *dicta*, that the FTDA might not provide protection from tarnishment, there was no reason to resolve the issue in the context of the Moseley case. The Court ultimately continued to refer to both blurring and tarnishment throughout the remainder of the opinion.
8. 15 U.S.C. § 1125(c)(1).
9. None of the cases discussed herein had serious difficulty finding that the marks at issue were famous and distinctive. However, 15 U.S.C. § 1125(c)(1) includes a list of factors that the Court is charged to consider in deciding whether a mark is famous. Although it is outside the scope of this article to specifically discuss the law which defines whether a mark is famous or distinctive, it is worth noting that each inquiry is separate and both must be established in order to be entitled to even bring a dilution claim.
10. The term dilution is further defined to mean "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence of absence of" competition between the parties or likelihood of confusion. 15 U.S.C. § 1127.
11. Id.
12. 15 U.S.C. § 1127.
13. See Chattanooga Mfg., Inc. v. Nike, Inc., 301 F.3d 789 (7th Cir. 2002) (finding that the plaintiff's trademark infringement claim was barred by a 14-year delay in filing suit); *but see* E&J Gallo Winery v. Gallo Cattle Co., 12 U.S.P.Q.2d 1657 (E.D. Cal. 1989) modified, *aff'd*, 955 F.2d 1327 (9th Cir. 1992), amended, 967 F.2d 1280 (9th Cir. 1992) (senior user was not required to object to a junior use until the use posed a real threat of potential confusion). ■

MEALEY'S LITIGATION REPORT: INTELLECTUAL PROPERTY

edited by Melissa Keehn

The Report is produced twice monthly by



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ISSN 1065-9390