

Intellectual Property Update

A Publication of Dorsey & Whitney's Technology Group

It's No Secret - The Supreme Court Rules on the Federal Trademark Dilution Act

The United States Supreme Court does not accept many trademark cases for review, and so on those rare occasions when the Court interprets the Lanham Act, trademark lawyers and their clients are usually eager to read what the Court has to say. This was especially true on March 4, 2003, when the United States Supreme Court issued an opinion in *Moseley v. V Secret Catalogue, Inc.*,¹ providing its first ruling on the Federal Trademark Dilution Act ("FTDA").

The FTDA became effective in January 1996, and it has been a source of conflict and controversy among the trial and appellate courts ever since. The Act provides a cause of action to the owners of "famous marks" against the commercial use of third party marks that "cause dilution of the distinctive quality" of the famous mark. Dilution is defined in the statute as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of whether the marks are used on competing products and whether or not there is a likelihood of confusion

between the marks. To put this abstract language into concrete terms, dilution claims were conceived to provide a remedy against the use of such marks as KODAK on pianos or DU PONT on shoes – the reasonable consumer is not likely to think that a camera and film company has gone into the musical instrument business or that a chemical company is making or licensing its name on shoes, but the unique and distinctive quality of the two famous marks would be "blurred" or diminished in some way if these diluting uses were not enjoined.

Prior to the enactment of the FTDA, approximately half the states in the United States had passed a state dilution statute. Most of these state statutes specifically included two types of actionable dilution: (1) dilution by blurring, as in the KODAK and DU PONT examples above; and (2) dilution by tarnishment, which occurs when a trademark is associated with unsavory or unlawful activities, such as pornography or illegal drugs. However, these state statutes were not written or interpreted

uniformly, and in the states that did not have a dilution statute, no remedy was available at all for trademark dilution.

Thus, one of the significant motivating forces behind the enactment of the FTDA was the desire to create a uniform, nationwide law of trademark dilution. Regrettably, this goal has not been achieved. Over the past seven years, the federal trial and appellate courts have grappled with a variety of questions concerning the proper interpretation of the FTDA, and have issued conflicting opinions on what marks qualify for protection as "famous" and what factors should be used to determine whether dilution by blurring has occurred. In particular, the Fourth and Fifth Circuit Courts of Appeal held that in order to prevail on a dilution claim, a trademark plaintiff had to demonstrate that the allegedly diluting mark had caused "actual economic harm to the famous mark's economic value by lessening its former selling power as an advertising agent for its goods or services."² This was a very stringent standard of proof that

was rejected by several other circuit courts which held, instead, that it was sufficient if the plaintiff could demonstrate that the defendant's mark was *likely* to dilute the distinctive quality of the plaintiff's mark.

The Supreme Court granted *certiorari* in *V Secret* to resolve this conflict as to whether "objective proof of actual injury to the economic value of a famous mark (as opposed to a presumption of harm arising from a subjective 'likelihood of dilution' standard) is a requisite for relief under the FTDA." The Court did not have before it, and thus did not decide, other controversial issues, such as when a mark should be considered "famous" under the FTDA; whether a mark must be inherently distinctive to be protected under the Act; and what legal standard should be used to determine whether dilution by blurring has occurred.

The *V Secret* case concerned a retail store named VICTOR'S LITTLE SECRET, located in a strip mall in Elizabethtown, Kentucky, that sells intimate lingerie, adult "novelties," adult videos and gifts. The store had originally been named VICTOR'S SECRET, but the owners changed the name after receiving a protest letter from V Secret, owners of the VICTORIA'S SECRET trademark. The district court concluded, on cross-motions

for summary judgment, that there was no likelihood of confusion between the marks, but that the VICTOR'S LITTLE SECRET mark had a "tarnishing effect" on the VICTORIA'S SECRET trademark. The Court of Appeals for the Sixth Circuit affirmed on both tarnishment and blurring grounds and held that relief could be granted without proof that dilution has actually occurred.³ In reaching that conclusion, the Sixth Circuit rejected the "actual economic harm" reasoning of the Fourth Circuit Court of Appeals.

The Supreme Court held that under the FTDA, actual dilution must be established.⁴ The Court's ruling relied heavily on the statutory text of the FTDA, which provides that relief may be granted against a trademark that "causes dilution" of the distinctive quality of a famous mark, in contrast to state dilution statutes, which protect against the "likelihood" of harm from diluting trademarks. In addition, the Court noted the crucial distinction between the "causes dilution" standard for claims under the FTDA and the Lanham Act's "likelihood of confusion" standard for trademark infringement claims. The Court emphasized, however, that requiring proof of actual dilution "does not mean that the consequences of dilution, such as an actual loss of sales or profits must be proved."

In a few instances in its opinion, the Court drew a distinction between dilution claims based on the use of an *identical* mark on dissimilar goods – the KODAK pianos and DU PONT shoes paradigm – and dilution claims involving similar, but non-identical marks, such as VICTOR'S SECRET and VICTORIA'S SECRET. The Court noted that petitioner Victor's Secret was not contending that the FTDA is confined to identical uses of famous marks, and observed that "Even if the legislative history might lend some support to such a contention, it surely is not compelled by the statutory text."

While the Court was not prepared to limit the applicability of the FTDA to identical marks, its opinion in *V Secret* seems to endorse a higher burden of proof where the marks at issue are not identical. It confirmed that "at least where the marks at issue are not identical, the mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution...such mental association will not necessarily reduce the capacity of the famous mark to identify the goods of its owner, the statutory requirement for dilution under the FTDA."⁵ Thus, to prevail on a dilution claim against a non-identical mark, a plaintiff must show not only that consumers would associate the

diluting mark with the plaintiff, but also that the diluting mark had lessened the capacity of the plaintiff's mark to distinguish and identify its goods or services. This showing could be made, the Court suggested, by expert testimony or consumer surveys. While noting that such means could be expensive, unreliable, and difficult to obtain, the Court concluded that "whatever difficulties of proof may be entailed, they are not an acceptable reason for dispensing with proof of an essential element of a statutory violation."

After pronouncing this stringent standard of proof for dilution claims asserted against non-identical marks, the Court lowered the bar for FTDA claims against identical marks: "It may well be, however, that direct evidence of dilution such as consumer surveys will not be necessary if actual dilution can reliably be proven through circumstantial evidence — the obvious case is one where the junior and senior marks are identical."⁶

Faced with this narrow, strict constructionist interpretation of the FTDA, the International Trademark Association ("INTA") is already considering options for pursuing Congressional action to amend the FTDA. Until then, unless a dilution claim is asserted against an identical mark, a plaintiff under the FTDA will have to satisfy a very stringent evidentiary burden.

- 1 71 U.S.L.W. 4126 (Mar. 4, 2003).
- 2 See *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 671 (5th Cir. 2000); *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Development*, 170 F.3d 449, 461 (6th Cir. 1999).
- 3 259 F.3d 464, 475-76 (6th Cir. 2001).
- 4 71 U.S.L.W. at 4130.
- 5 *Id.*
- 6 *Id.*

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Volume 3, No. 2

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