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TRADEMARK DILUTION

The 'Moseley' Decision

By Lewis R. Clayton

NO PART OF THE federal trademark law has caused more confusion than the Federal Trademark Dilution Act (FTDA), 15 U.S.C. 1125(c), passed in 1995. Traditional trademark law focuses on consumer confusion—mistaking the goods of one supplier for those of another. The FTDA, however, focuses on dilution—defined as "the lessening of the capacity of a famous mark to identify and distinguish goods or services"—and applies "regardless of the presence or absence of likelihood of confusion, mistake, or deception." Exactly what dilution is remains a subject of debate, eight years after passage of the act, and decades after passage of state dilution laws.

While dilution is evidenced by the inability of the famous mark to identify the senior user's product in a consumer's mind, there is a fine line between this injury and the harm evident in a traditional infringement case, where consumers identify the junior user's product with the senior user's mark. One can argue this is simply a difference in semantics, but one that is critical under the statute.

The facts behind the Supreme Court decision

On March 4, in *Moseley v. V Secret Catalogue Inc.*, 123 S. Ct. 1115 (2003), the U.S. Supreme Court ruled that a plaintiff under the act must make a showing of actual dilution, rather than a mere likelihood of dilution. (By contrast, an infringement claim requires only proof of likelihood of confusion.) Yet *Moseley* does little to clarify the meaning of dilution, and it raises questions about the statute that many practitioners and courts had believed were already settled.

The court ruled that a plaintiff under the Federal Trademark Dilution Act must show actual dilution rather than a mere likelihood.

The plaintiffs in *Moseley* are the owners of the famous Victoria's Secret trademark. They operate more than 750 retail stores selling, by their own description, "moderately priced, high quality, attractively designed lingerie." Four hundred million copies of the Victoria's Secret catalog are mailed each year, and the plaintiffs' sales exceed $1.5 billion.

Defendants Victor and Cathy Moseley own Victor's Little Secret, a retail store in Elizabethtown, Ky., opened in 1998. Their eclectic selection of merchandise includes lingerie, adult videos and novelties, lava lamps, leather biker wallets and handcuffs. After hearing about the store's opening from a local consumer (an army colonel at nearby Fort Knox), the plaintiffs brought suit alleging trademark infringement, unfair competition, "federal dilution" and various state law claims. Although one might surmise that the defendants chose their store's name to trade on Victoria's Secret's goodwill (which they denied), the trial court found no evidence of actual confusion, and thus dismissed the infringement count.

The dilution claim, however, was sustained. On appeal, the 6th U.S. Circuit Court of Appeals aligned itself with the 2d Circuit's interpretation of the FTDA in *Nabisco Inc. v. PF Brands Inc.*, 191 F.3d 208 (1999), and rejected the analysis of the 4th Circuit in *Ringling Bros.-Barnum & Bailey Combined Shows Inc. v. Utah Division of Travel Dev.*, 170 F.3d 449, 464 (4th Cir. 1999). 259 F.3d 464 (6th Cir. 2001). Under the 2d Circuit standard, the plaintiffs were allowed to prevail without presenting evidence of actual injury, relying instead on a showing of a likelihood of dilution, akin to the standard that governs infringement cases. In granting certiorari, the Supreme Court set out to resolve whether the *Nabisco* path chosen by the 6th Circuit is consistent with the act.

The transcript of the Supreme Court oral argument shows the court struggling to understand just what "injury" is suffered by a plaintiff in a dilution case. Leaving aside tarnishment—when a famous mark is used in association with an unsavory or low-quality product—the justices pressed counsel to explain how the owner of a famous mark is injured by use in a market that the owner does

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not intend to enter.

The court's opinion, authored by Justice John Paul Stevens, does little to resolve that issue, confining its holding to the narrow question before it. The opinion identified that issue as "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." To find the answer, the court naturally began with the words of the statute. Here, it found two clues.

First, the court stressed that many of the state dilution statutes on which the act is based, as well as portions of the Lanham Act that deal with traditional infringement, "repeatedly refer to a 'likelihood' of harm, rather than to a completed harm." The FTDA, by contrast, provides for relief when unauthorized use of a famous mark "causes dilution of the distinctive quality of the famous mark." The court concluded that "this text unambiguously requires a showing of actual dilution, rather than a likelihood of dilution."

Second, the court noted that the definition of "dilution" in the statute refers to an actual "lessening of the capacity" of the mark, and that the statute later states that "likelihood" of confusion is not a requirement of a dilution claim. This "contrast," the court stated, "confirms the conclusion that actual dilution must be established."

Yet the opinion does include some comforting language for dilution plaintiffs. The court found that the requirement that actual dilution be shown does not mean that actual economic harm be proved. It distinguished between dilution of the mark, on the one hand, and the economic effects of dilution on the other.

In so doing, the court disapproved of the holding of the 4th Circuit in *Ringling Bros*. that a dilution claimant is required to show "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."

While *Moseley* held that actual dilution must be shown, dilution is defined in the statute in terms of the "capacity" of a mark "to identify and distinguish goods or services." That was the focus of Justice Anthony Kennedy's concurrence, which observes: "The word 'capacity' imports into the dilution inquiry both the present and the potential power of the famous mark to identify and distinguish goods, and in some cases the fact that this power will be diminished could suffice to show dilution."

On its way to resolving the issue presented on certiorari, the court may have created some mischief by adding dictum to its opinion that could upset established views of the application of the FTDA to tarnishment. The opinion notes that tarnishment "was prominent in litigation brought under state antidilution statutes and...was mentioned in the legislative history." Looking at the literal text of the statute, however, the court questioned whether tarnishment is actually included in the definition of dilution. Based on that dictum, defendants in tarnishment actions under the act can now be expected to question whether the statute applies—an issue that had, until now, been deemed settled.

Although the court's reading of the act to require proof of actual dilution, and its questioning of the law's application to tarnishment, are both supported in the statutory text, there is a real issue as to whether Congress actually meant to make these distinctions. As the court notes, the House passed the statute unanimously after only a day of committee hearings, during which no opposition was voiced, and the Senate passed it by a voice vote held the same day on which it was introduced, without any hearings. Did Congress really intend to differentiate federal dilution law from state dilution statutes, or did it merely believe it was creating a uniform federal dilution cause of action equivalent to state law?

Will 'Moseley' result in an amended dilution act?

Moseley has prompted calls to amend the FTDA to make it clear that the statute requires only likelihood of dilution. If an amendment is passed, Congress might also wish to clarify its views on tarnishment as a species of dilution.

If the law is not amended, what kind of proof of dilution will suffice after *Moseley*? In cases in which the accused trademark is not identical to the famous mark, courts will be unlikely to grant injunctions simply on the basis of the claim that a similar mark will cause dilution of a famous one. That was the record in *Moseley*, in which there was no evidence of the effect on the Victoria's Secret mark of the defendants' use of a similar, nonidentical mark. In this sense, the court's opinion may be understood simply as a ruling that dilution will not be presumed from the similarity of nonidentical marks.

Nor is mere evidence of association between nonidentical marks likely to carry the day. As the court wrote: "[T]he mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution." The court noted: " '[B]lurring' is not a necessary consequence of mental association."

Thus, when the marks are not identical, a court may well require some evidence—a consumer survey, adequately supported expert testimony or sufficient anecdotal evidence of consumer or trade reaction—that the power of the famous mark to distinguish its owner's goods, or the association of the mark with its owner, has somehow been weakened. That evidence may not be easy to obtain.

When the two marks are identical, however, *Moseley* may not mean that much at all. The court said that "it may well be...that direct evidence of dilution...will not be necessary if actual dilution can reliably be proven through circumstantial evidence—the obvious case is one where [the] marks are identical." Thus, defendants that adopt a mark already made famous by another party may derive little benefit from *Moseley*.

The lower courts are likely to find themselves grappling with the meaning of *Moseley* in future cases. These questions, moreover, are among a group of difficult ones raised by the FTDA. One such issue is the precise definition of fame under the statute—for example, whether an otherwise little-known mark may become "famous" in a niche market. See, e.g., *Syndicate Sales Inc. v. Hampshire Paper Corp.*, 192 F.3d 633 (7th Cir. 1999). Stay tuned. NLJ