Client Alert

Latham & Watkins Litigation Department

Trademark Dilution Revision Act of 2006

"If the defendant uses a famous mark in a way that diminishes the value of the plaintiff's mark, the mark has been diluted."

On October 6, 2006, President Bush signed the Trademark Dilution Revision Act (H.R. 683) (the Act). The Act is primarily a response to the Supreme Court's narrow interpretation of the Federal Trademark Dilution Act (FTDA) in *Moseley v. V Secret Catalogue, Inc.*[1] Before *Moseley* had been decided, there was some uncertainty amongst courts as to whether the FTDA required a plaintiff asserting a dilution claim to show that the defendant's use of the allegedly dilutive mark caused a "likelihood of dilution" or that it caused "actual dilution." In *Moseley*, the Supreme Court held that "actual dilution" was the proper standard based on a strict interpretation of the terms of the FTDA. The Act abrogates *Moseley*, providing that a dilution plaintiff only needs to show that the defendant's challenged use is "likely to cause dilution."

The Act makes other important changes to the FTDA, largely responding to various courts' interpretations of that statute. In particular, it eliminates the concept of "niche" fame – *i.e.*, under the FTDA, marks could be found famous within a certain niche geographic or product market. Now, a plaintiff claiming dilution will need to show that its mark is famous among the general public of the United States. Other clarifications include: an acknowledgement that dilution by tarnishment is just as actionable as dilution by blurring; a provision recognizing that a mark does not need to be inherently distinctive to be found famous; more specific protections for those exercising their First Amendment rights in parodying or criticizing products; and the placement of the burden of proof on trademark owners who claim their unregistered trade dress is famous and thus protected against dilution.

What is Trademark Dilution?

Under the Lanham Act, a trademark is defined as "any word, name, symbol, or device, or any combination thereof" that distinctively identifies a company as the source of a product or service.[2] Trademarks allow consumers to determine the origin of a product or service, while, at the same time, allowing merchants to build brand recognition and distinguish their products or services from those of other businesses. When another uses a mark that is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection or association of such person with another person, or as to the origin, sponsorship or approval of another's goods or services, that user infringes the trademark rights of another. Trademark infringement violates both the public's right to be secure from confusion, and a trademark owner's right to control the reputation and representation of their product.

Trademark dilution, however, is not tied to consumer confusion or deception. Dilution occurs when a mark is used in a way that blurs or tarnishes the distinctive quality of the mark. Prior to the passage of the FTDA, various states had enacted anti-dilution statutes to protect against dilution and, in so doing, preserve the investments of famous trademark owners against dilutive conduct. These statutes typically addressed both dilution by blurring and dilution by tarnishment.

Dilution by blurring is defined by the Second Circuit as "the whittling away of an established trademark's selling power through its unauthorized use by others upon dissimilar products."[3] Blurring occurs when a famous trademark is being used to identify other non-competing goods and services regardless of the quality of those goods. A simple example of dilution by blurring, offered by the Ninth Circuit, is a cocoa maker who uses the trademark "Rolls Royce" to identify its product.[4] While it is unlikely that consumers would be confused by such use, the "Rolls Royce" brand will still have a different meaning in the future for any consumer who originally only associated that brand with the mark of Rolls Royce vehicles. Even though there is no likelihood of confusion between the two uses of the mark, the unique significance of the mark to identify the original product is weakened.

Dilution by tarnishment occurs when a famous mark is linked to a product of low quality or is portrayed in an unwholesome context as a result of another's use of that mark. An example of dilution by tarnishment is found in the Ninth Circuit's decision in *Toys "R" Us v. Akkaoui*. In that case, Toys "R" Us successfully enjoined a company from using the trademark "adultsrus.com" for pornographic materials because such use would diminish consumer attitudes towards the Toys "R" Us trademark.[5] Again, the absence of consumer confusion does not matter. If the defendant uses a famous mark in a way that diminishes the value of the plaintiff's mark, the mark has been diluted.

The Evolution of Trademark Dilution Law

Unlike traditional trademark law, the dilution doctrine is not based on common law. Rather, the first anti-dilution laws in the United States were passed by individual states. Currently, the majority of states have enacted anti-dilution legislation. These statutes vary from state to state; for example, in some states *any* distinctive mark is eligible for protection, while in others the mark must be "famous," "extremely strong" or "highly distinctive."[6]

States also differ in the standard that is used to determine dilution – most statutes provide relief to plaintiffs who establish a "likelihood of dilution," while others require "actual dilution."[7] Typically a court's assessment of the likelihood of dilution is based on a number of factors including: the similarity of the marks, the similarity of the products, the sophistication of the consumers, the existence of predatory intent, the renown of the senior mark and the renown of the junior mark. It should be noted that federal law provides a complete defense to a state law infringement claim if the allegedly dilutive mark is the subject of a valid registration on the Principal Register. This means that if a trademark owner registers its trademark with the federal registry, no other company or individual can bring a state or common law trademark dilution claim against it.

In 1995, the federal government got involved in the trademark dilution arena by incorporating the FTDA into the Lanham Act (the federal law dealing with trademark infringement and false advertising). The FTDA provided trademark owners with a federal remedy "against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark."[8] This protection occured regardless of any confusion between the marks, and was available for both registered and unregistered marks. Specifically, a plaintiff qualified for protection under the FTDA if: (1) its mark was famous; (2) the defendant was making commercial use of the mark; (3) the defendant's use began after the plaintiff's mark became famous; and (4) the defendant's use of the mark diluted the quality of the mark by diminishing the capacity of the mark to identify and distinguish goods and services.[9]

In interpreting the FTDA, federal courts generally held that the Act protected plaintiffs from both blurring and tarnishment. However, the Supreme Court's decision in *Moseley v. V Secret Catalog* casts some doubt on these previous interpretations. In *Moseley,* the Supreme Court found that while most state anti-dilution laws distinguished between "blurring" and "tarnishment," the FTDA did not. This distinction led the Court to question whether Congress intended to grant trademarks protection from dilution by "tarnishment."[10]

Courts have also disagreed regarding the scope of the marketplace that should be used to determine whether a particular mark is "famous." Some courts have concluded that the mark must be famous in the general marketplace;[11] others have held that being famous in a "niche" marketplace is sufficient.[12] Still other courts have held that the narrowness of the marketplace is simply one factor to consider in determining whether the mark is "famous."[13]

Additionally, courts have had difficulties interpreting whether the FTDA required trademarks to be inherently distinctive in order to be protectable. Most Circuits have held that the mark must be either inherently distinctive or distinctive with secondary meaning (otherwise known as "acquired distinctiveness"). Some courts have assumed that when a mark is famous, it is inherently distinctive.[14] The Second Circuit has held "a plaintiff must show that the senior mark possesses both a 'significant degree of inherent distinctiveness' and, to qualify as famous, 'a high degree of . . . acquired distinctiveness.'"[15] In this case, the Court held that the mark THE CHILDREN'S PLACE was not famous because the mark was merely descriptive and not inherently distinctive as required by the FTDA.

The most significant split in authority among the Courts of Appeal prior to 2003 was whether a plaintiff had to show "actual dilution" or a "likelihood of dilution." To resolve this split, the Supreme Court decided *Moseley v. V Secret Catalogue*. In *Moseley*, the Court held that trademark owners must establish *actual* dilution rather than merely a *likelihood* of dilution. This means that under the FTDA, a plaintiff must have either objective proof of actual injury to the economic value of the mark, or reliable circumstantial evidence showing actual dilution. The example the Court used for "reliable circumstantial evidence" is when the senior and junior marks are identical.[16] Even the term identical, however, troubled many courts deciding dilution claims after *Moseley* was decided. For example, were marks identical if the words were spelled differently or had different fonts?

The FTDA also contained three exceptions under which the use of a famous mark would not give rise to any liability: (1) fair use in comparative advertising or promotion to identify the competing goods or services of the owner of the famous mark; (2) noncommercial use; and (3) all forms of news reporting and news commentary.[17]

Finally, the remedies under the FTDA were generally restricted to injunctive relief unless the dilution was willful, in which case damages could be awarded.

Congress Steps in to Mend the Circuit Split

After the *Moseley* decision, Congress held hearings in 2004 regarding possible revisions to the FTDA. These hearings ultimately led to the Trademark Dilution Revision Act (H.R. 683) which the Senate and the House of Representatives approved on March 8, 2006 and September 25, 2006, respectively. On October 6, 2006, President Bush signed the Act into law. The Act makes important changes to the FTDA that attempt to repair the rift that developed among the various Circuits since *Moseley* was decided.

The key provision in the Act is that *actual* dilution is no longer a requisite element to prove a dilution claim as it had been after *Moseley*. The Act abrogates *Moseley*, providing relief even where the trademark owner can only show a use is "likely to cause dilution." Now, a plaintiff asserting a dilution claim can file a preemptive strike – *i.e.*, the plaintiff can obtain an injunction even before the damage is done, rather than having to wait for damage simply so they could prove dilution had, in fact, occurred.

The Act also abrogates the Second Circuit's holding in *The Children's Place* case that only inherently distinctive marks can be deemed famous under the FTDA.[18] The Act specifies that a mark must be "distinct" to be protected, and that such distinctiveness can be achieved either "through inherent ***or*** through acquired distinctiveness."[19]

The Act also replaces the previous eight factor analysis of whether a term is "famous," with a more restrictive definition. The new definition states that a mark is famous "if it is widely recognized by ***the general consuming public of the United States*** as a designation of source of the goods or services of the mark's owner."[20] In determining whether a mark possesses the requisite degree of recognition, the court may consider a new set of factors identified in the Act, namely: (1) the duration, extent and geographic reach of advertising and publicity of the mark, whether the mark is advertised or publicized by the owner or third parties; (2) the amount, volume and geographic extent of sales of goods or services offered under the mark; and (3) the extent of actual recognition of the mark.[21] With these changes, Congress has eliminated the concept of "niche fame" whereby a mark could be found famous in a particular geographic region or in a particular product market. Thus, marks that were previously protected from dilution by courts which recognized fame in these markets will no longer be protected.

The Act also makes two important changes with regard to exemptions and defenses against trademark dilution claims. The Act includes a more specific description of what conduct is exempt from dilution claims. In particular, the Act explicitly excuses any use that identifies, parodies, criticizes or comments upon a famous mark. Before the Act, such uses were not explicitly exempted. Second, a section was added by the Senate Judiciary Committee which grants an express exemption covering "nominative or descriptive use or a facilitation of such use."[22] The term "facilitation" was added to protect internet service providers who were concerned with secondary liability for the acts of their users. According to Senator Leahy, a supporter of the bill, the language was aimed at "ensuring innocent search engines are not caught in the liability net."[23]

Finally, the Act includes a new section establishing the burden of proof in a dilution action involving unregistered trade dress. Under this section, the burden is on the person asserting trade dress protection to demonstrate that: (a) the claimed trade dress, taken as a whole, is not functional and is famous; and (b) if the claimed trade dress includes any mark or marks registered on the principal register, the unregistered matter, taken as a whole, is famous separate and apart from any fame of such registered marks.[24] Under this new rule, the dilution plaintiff must not only show that the trade dress in question is famous and non-functional (*i.e.*, a bottle designed to be more easily gripped is functional), but that plaintiff must also show that the trade dress would be famous even if a registered mark typically placed on the product was removed.

The Act's Impact

The Act has several significant ramifications for the owners of famous trademarks. First, it provides an overall clarification of the ambiguities of the FTDA providing certainty for such owners. Second, trademark owners will have stronger protection of their famous trademarks under the less stringent "likely to cause dilution" standard, namely being able to obtain injunctive relief before a dilutive mark actually causes dilution. Third, trademark owners whose marks are only famous in niche geographic or product markets will no longer be protected under the new country-wide/general consuming public standard. Fourth, trademark owners claiming trade dress dilution will now have the burden of proving that their trade dress is famous. Last, but not least, the Act provides specifically enumerated and clear exemptions for specific types of conduct from the statute.

Overall, the Act simplifies and clarifies what was previously a muddied legal landscape. By eliminating interpretive splits among federal courts, the new law enables trademark owners to know better what rights they have with respect to any dilution claim that they may want to pursue. While some potential dilution plaintiffs may have an easier time clearing the "likely to cause dilution" hurdle, others may not even reach that stage because the marks they are relying upon to assert a dilution claim are only famous within a niche market.

The Act may prove beneficial for large well-recognized trademarks, while detrimental to smaller, less well-known trademarks, particularly those which are only known within a certain geographical location or industrial segment. At the very least, after the passage of the Act, trademark dilution litigants are in a better position to know how the law will apply to their cases, and that may prove to be this legislation's most powerful legacy.

Endnotes

[1] *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003).

[2] 15 U.S.C. § 1127.

[3] *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A.*, 875 F.2d 1026, 1031 (2d Cir. 1989).

[4] *Playboy Enters., Inc. v. Welles*, 279 F.3d 796, 805 (9th Cir. 2002).

[5] *See Toys "R" Us v. Akkaoui*, 40 U.S.P.Q.2d (BNA) 1836 (N.D. Cal. 1996).

[6] *See Chimney Safety Inst. of Am. v. Chimney King*, 2004 U.S. Dist. LEXIS 11985 (N.D. Cal. May 25, 2004) (California anti-dilution law requires a mark to be famous); *Welch Allyn, Inc. v. Tyco Int'l Servs.* AG, 200 F. Supp. 2d 130, 150 (N.D.N.Y. 2002) (citing *Sally Gee, Inc. v. Myra Hogan, Inc.*, 699 F.2d 621, 625 (2d Cir. 1983)(N.Y. anti-dilution law requires a mark to be extremely strong); *Inmuno Vital, Inc. v. Golden Sun, Inc.*, 49 F. Supp. 2d 1344, 1353 (S.D. Fla. 1997) (Florida law requires a mark to be highly distinctive); *Airwick Indus. v. Alpkem Corp.*, 384 F. Supp. 1027, 1032 (D. Or. 1974)(Oregon anti-dilution law merely requires a mark to be distinctive).

[7] Compare, *e.g., Anti-Defamation League of B'Nai B'Rith v. Arab Anti-Defamation League*, 72 Misc. 2d 847, 854 (N.Y. Sup. Ct. 1972)(noting that NY courts have recognized the actual dilution approach but seldom apply it); with *Ringling Bros.-Barnum & Bailey Combine Shows, Inc. v. Celozzi-Ettelson Chevrolet, Inc.*, 855 F.2d 480, 484 (7th Cir. 1988)(Illinois anti-dilution statute merely requires a likelihood of dilution).

[8] 15 U.S.C. § 1125(c)(1).

[9] *See* 15 U.S. 40 U.S.P.Q.2d (BNA) 1836C. § 1125(c); *Ringling Bros. v. Utah Div. of Travel Dev.*, 170 F.3d 449, 452 (4th Cir. 1999); *Panavision Int'l L.P. v. Toeppen*, 141 F.3d 1316, 1324 (9th Cir. 1998).

[10] *See Moseley*, 537 U.S. at 432.

[11] *See Sporty's Farm L.L.C. v. Sportsman's Mkt., Inc.*, 202 F.3d 489, 497 n.10 (2d Cir. 2000) (discussing the requirement for fame in the general marketplace).

[12] *See Star Markets, Ltd. v. Texaco, Inc.*, 950 F. Supp. 1030, 1035 (D. Haw. 1996).

[13] *See Syndicate Sales, Inc. v. Hampshire Paper Corp.*, 192 F.3d 640-641 (7th Cir. 1999).

[14] *Ringling Bros.*, 170 F.3d at 452.

[15] *Savin Corp. v. Savin Group*, 391 F.3d 439, 449 (2d Cir. 2004) quoting *TCPIP Holding Co. v. Haar Communications Inc.*, 244 F.3d 88, 95 (2d Cir. 2001).

[16] *Moseley*, 537 U.S at 434.

[17] *See* 15 U.S.C. § 1125(c)(4).

[18] 15 U.S.C. § 1125(c); *TCPIP Holding Co.*, 244 F.3d at 98.

[19] 15 U.S.C. § 1125(c)(1) (emphasis supplied).

[20] 15 U.S.C. § 1125(c)(2) (emphasis supplied).

[21] 15 U.S.C. § 1125(c)(2)(i)-(iv).

[22] 15 U.S.C. § 1125(c)(3)(A).

[23] *Senate Passes Legislation Amending Federal Trademark Dilution Statute*, 71 Patent Trademark & Copyright Journal, 1760 (2006) http://ipcenter.bna.com/pic2/ip.nsf/ id/BNAP-6MUKUT?OpenDocument.

[24] 15 U.S.C. § 1125(c)(4).

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