Courts' Struggles in Applying the Act

The Dilution of the Federal Trademark Dilution Act

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With its passage in 1995, the Federal Trademark Dilution Act was heralded by trademark owners as a powerful new weapon in the protection of intellectual property. In application, however, that weapon has missed its mark.

On its face, the FTDA provides the owner of a "famous mark" with protection against the "commercial use… 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." 15 U.S.C. §1125(c)(1). Ostensibly, the FTDA provides a cause of action regardless of lack of competition between the parties or consumer confusion. 15 U.S.C. §1127. However, recent decisions have grafted onto the statute a series of requirements and considerations which few would have anticipated upon the statute's passage, *e.g.*, a requirement that trademark owners demonstrate actual harm rather than only a likelihood of dilution; consideration of competition or confusion between the goods or services the parties offer; and a limitation that purports to exclude an entire category of trademarks from the purview of the Act.

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Genesis and Early Case Law Developments

To fully appreciate the enthusiasm generated by passage of the FTDA, one must understand that the likelihood of consumer confusion is the *sine qua non* of trademark infringement law. See 1 *McCarthy on Trademarks and Unfair Competition* §2:8 (4th ed. 1996). Thus, without credible evidence of potential consumer confusion, a trademark owner was unable, using traditional trademark infringement law, to stop unauthorized uses of similar marks. Typically, courts find consumer confusion when a junior mark is similar in sight, sound, or meaning to a senior mark, and is used in connection with competing, or at least related, goods or services. However, trademark infringement law does not prohibit the use of similar or even identical marks in connection with unrelated goods and services because consumers are not likely to be confused in that context. Thus, for instance, "Universal" exists as both the name of a movie studio and a brand of fitness equipment without causing consumer confusion and without violating trademark infringement law.

The FTDA amended the federal trademark statute (the Lanham Act, 15 U.S.C. §1051 *et seq.*) to provide a new cause of action for federal trademark dilution, effective January 16, 1996. The new cause of action does not require a showing of consumer confusion, only a showing that the unauthorized use could reduce "the public's perception that the [senior] mark signifies something unique, singular, or particular." See H.R. Rep. No. 104-374, at 3 (1995), reprinted in 1995 U.S.C.C.A.N. 1029, 1030. The FTDA defines dilution as the "lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of—(1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception." 15 U.S.C. §1127. The FTDA was intended to prevent the gradual loss or "whittling away" of the ability of famous marks to clearly distinguish one, single source. See *Hormel Foods Corp. v. Jim Henson Productions, Inc.*, 73 F.3d 497, 506 (2d Cir. 1996); Schechter, "The Rational Basis of Trademark Protection," 40 Harv.L.Rev. 813 (1927).

Congress made clear, however, that to qualify for protection under the FTDA, the senior mark must be famous, citing as examples certain hypothetical junior uses which would violate the Act: DuPont shoes, Buick aspirin, and Kodak pianos. H.R. Rep. No. 104-374 at 3 (1995). These hypothetical uses were proscribed not because Congress feared that consumers would believe that General Motors was the manufacturer of aspirin, but because it believed that the junior use might diminish the selling power and favorable associations that the famous mark General Motors had engendered for Buick products in the minds of consumers. These examples further underscore that competition between the two products (*e.g.*, Buick cars and Buick aspirin) was irrelevant, as was the likelihood of consumer confusion.

Although the concept of trademark dilution has existed since 1927, and, by 1996, roughly half the states had adopted anti-dilution laws, these laws were inconsistent. Through the FTDA, Congress sought to create a consistent scheme that would afford owners of famous marks a federal remedy and nationwide injunctive relief. However, in application, the FTDA has failed to live up to its billing, primarily because it provided no guidance on how to prove a crucial element of the cause of action—dilution.

In a series of landmark cases involving Internet domain names, several courts held that dilution of a famous mark could be proven where a defendant's unauthorized use of a trademark in a domain name hindered the trademark owner's use of its own trademark on the Internet. See *Intermatic Inc. v. Toeppen,* 947 F.Supp. 1227 (N.D.Ill. 1996); *Panavision International, L.P. v. Toeppen*, 945 F.Supp. 1296 (C.D.Cal. 1996), *aff'd,* 141 F.3d 1316 (9th Cir. 1998). However, these cases proved to be useless outside of the domain name context. The *Panavision* court commented, in fact, that its ruling created a cause of action beyond traditional dilution models. 141 F.3d at 1325.

In cases not involving domain names, instead of the *Toeppen* model for proving dilution, courts generally applied a six-factor test proposed by Judge Robert Sweet's concurrence in *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1035 (2d Cir. 1989), a case pre-dating the FTDA, brought under the state of New York's anti-dilution statute. These factors, commonly referred to as the Sweet factors, include consideration of the similarity of the products covered by the marks. Product similarity, however, is a cornerstone of the traditional source confusion analysis employed in a trademark infringement claim. As discussed below, the inclusion of product similarity in FTDA dilution analysis has been widely criticized because the FTDA's primary purpose was that it apply in cases where the goods or services are non-competing. Commentators have suggested that including this factor in any dilution analysis renders the dilution law useless. See *McCarthy*, §24:94.2.

Actual Dilution v. Likelihood of Dilution

In addition to applying the Sweet factors, federal courts applying the FTDA initially required a showing by plaintiffs that the defendant's use was only *likely* to create dilution. Typically, this likelihood of dilution could be found, or rejected, by drawing an inference from balancing of the Sweet factors. A showing of actual dilution was unnecessary, until *Ringling Bros.–Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development,* 955 F.Supp. 605 (E.D.Va. 1997), *aff'd,* 170 F.3d 449 (4th Cir. 1999).

In *Ringling Brothers*, the Fourth Circuit examined the language and legislative history of the FTDA and concluded that the "likelihood of dilution" standard used by other courts was not supported in the statute. The court then held that to succeed under the FTDA, the plaintiff must demonstrate that the defendant's use of a famous mark has *actually* diluted the mark, rather than demonstrating a *likelihood* that the mark *will* be diluted. This interpretation has created a split among the circuits.

The plaintiff in *Ringling Brothers* claimed that its mark for circus performances, "The Greatest Show on Earth," was diluted by use of the slogan "The Greatest Snow on Earth" for the state of Utah's skiing facilities. Ringling Brothers argued that the FTDA only required it to show that consumers made a mental association between its mark and Utah's junior mark, and that through this association, its senior mark no longer signified a single source. The Fourth Circuit rejected this formulation,

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stating that plaintiff must prove not only a "sufficient similarity between the junior and senior marks to evoke an 'instinctive mental association' of the two by a relevant universe of consumers," but also that this mental association results in "an actual lessening of the senior mark's selling power." 170 F.3d at 458.

Attempting to prove actual dilution, Ringling Brothers offered a survey of individuals at shopping malls nationwide, including one in Utah, who were asked to complete the phrase "The Greatest _____ on Earth." In Utah, twenty-five percent of the respondents completed the phrase with the word "show" only, and associated the phrase with Ringling Brothers. Twenty-four percent used the word "snow" only, and associated the phrase with Utah. Twenty-one percent completed the phrase with both words, and associated each phrase with the correct owner of each mark. Outside of Utah, forty-one percent completed the phrase with "show" only and associated it with Ringling Brothers. No one completed the phrase with the word "snow" only, and fewer than .5 percent completed the phrase with both words. Because no consumers associated the "snow" phrase with Ringling Brothers, and because no consumers associated the phrases with each other, the federal district court in Virginia concluded that the survey demonstrated the absence of a mental association, not the presence of it. 955 F.Supp. at 617, and 170 F.3d at 462-63.

The district court went on to find that even if the requisite mental association had been present, the survey did not establish actual harm in the form of a lessening of the capacity of the mark to identify its source. The district court added together the 25 percent of people in Utah who used "show" and associated it with Ringling Brothers, and the 21 percent in Utah who used both marks and associated them properly, and concluded that 46 percent of people surveyed in Utah knew that "The Greatest Show on Earth" was associated with Ringling Brothers. This number was five percent higher than the 41 percent outside of Utah who associated "The Greatest Show on Earth" with Ringling Brothers. Thus, "slightly more people associate the famous mark with Ringling in Utah than in areas where Utah's mark is unknown." 955 F.Supp. at 618. The district court found that "the survey seems to show conclusively that in the whole of the country outside of Utah, [the snow] mark has caused no dilution of Ringling's famous mark." *Id.* at 617.

The Fourth Circuit affirmed, holding that proof of dilution must include proof beyond the mere recognition of a visual similarity between the marks. 170 F.3d at 463. It opined that although proof of actual dilution in the form of lost "selling power" will be difficult to establish, it is not impossible. *Id.* at 464-65. The court suggested that such proof might include evidence of actual lost revenues and consumer surveys designed to demonstrate not just "mental association" but "further consumer impressions from which actual harm and cause might rationally be inferred." *Id.* See also, *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 670 (5th Cir. 2000) (Fifth Circuit adopts *Ringling Brothers* actual dilution test).

Just five months after the Fourth Circuit's ruling in *Ringling Brothers*, the Second Circuit rejected the actual dilution standard. In *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 (2d Cir. 1999), Nabisco was poised to manufacture bite-sized cheese crackers in the shapes of cats, dogs, and fish and sought a declaratory judgment that its crackers would not infringe upon a famous trademark owned by Pepperidge Farm for "Goldfish" bite-sized cheese snack crackers. Pepperidge Farm counterclaimed, alleging both trademark infringement and dilution. The district court entered a preliminary injunction, finding that Pepperidge Farm had established a likelihood of dilution. 50 F.Supp.2d 188 (S.D.N.Y. 1999).

On appeal, Nabisco, not surprisingly, embraced the Fourth Circuit's opinion in *Ringling Brothers*, arguing that Pepperidge Farm was required to show "actual, consummated harm," not simply a likelihood of dilution. The Second Circuit rejected this argument, finding that likelihood of dilution was the proper test and that evidence of actual dilution, through loss of revenues or otherwise, was not required. The court recognized that "[e]ven if diminished revenue could be shown, it would be extraordinarily speculative and difficult to prove that the loss was due to dilution of the mark." 191 F.3d at 224. The court also noted that consumer surveys are an expensive method of determining actual dilution, are subject to manipulation, and thus not entirely reliable. *Id.*

Additionally, the court pointed out that a requirement of actual dilution would subject the senior user to "uncompensable injury," because "[t]he statute could not be invoked until injury had occurred. And, because the statute provides only for an injunction and no damages (absent willfulness)… such injury would never be compensated." *Id.* The court also recognized that to require actual dilution would be problematic for the junior user because if "no adjudication can be made until the junior mark has been launched and has caused actual dilution, businesses in [the junior user's] position will be unable to seek declaratory relief before going to market." *Id.* In sum, the Second Circuit in *Nabisco* held that if "a junior user began to market Buick aspirin or Schlitz shellac, we see no reason why the senior users could not rely on persuasive circumstantial evidence of dilution of the distinctiveness of their marks without being obligated to show lost revenue or engage in an expensive battle of surveys." *Id.* at 224. See also, *Eli Lilly & Co. v. Natural Answers, Inc.,* 233 F.3d 456 (7th Cir. 2000) (rejecting actual dilution standard in favor of likelihood of dilution test under FTDA).

Competitive Goods and the Likelihood-of-Dilution Standard

Although trademark owners may celebrate *Nabisco's* rejection of the actual dilution test, that celebration should be short, as the Second Circuit admitted in its opinion that the likelihood-of-dilution test is "not entirely clear." *Nabisco*, 191 F.3d at 217.

In setting forth the considerations for proving a likelihood of dilution, the *Nabisco* court rejected the automatic application of any single, fixed set of factors, including the Sweet factors. Instead, the court reasoned "courts would do better to feel their way from case to case, setting forth in each those factors that seem to bear on the resolution of that case, and, only eventually to arrive at a consensus of relevant factors on the basis of this accumulated experience." *Id.* at 227. The *Nabisco* court examined a set of ten non-exclusive factors, ultimately holding that Nabisco had proven its claim under the FDTA. Among the ten factors listed were: (1) the proximity of the products and the likelihood of the senior user introducing a competitive product and thus "bridging the gap" between the products; (2) "shared consumers and geographic limitations"; and (3) actual confusion. *Id.* at 217-22. By including these three factors in particular, the Second Circuit focused, inexplicably, upon concerns that Congress specifically legislated should be irrelevant to the FTDA, *i.e.*, competition and confusion. Under the FTDA, "dilution" is the lessening of a famous mark's capacity to distinguish goods or services *regardless* of competition or confusion. 15 U.S.C. §1127. Thus, by definition, courts are to examine dilution cases without regard for these factors, but the *Nabisco* court worked these considerations into its test, and weighed them fairly heavily.

For example, the *Nabisco* court considered the existence of direct competition between Nabisco and Pepperidge Farms' products, and also opined that, in the absence of direct competition, courts could even consider the likelihood that a senior user might enter the junior user's market, or "bridge the gap," in order to support a dilution finding. 191 F.3d at 218. Without explaining why competition or market expansion should be relevant in light of the statutory definition of "dilution," the Second Circuit speculated that in the future, "there may well be cases in which proximity [of products] may be necessary to dilution." *Id.* Moreover, the *Nabisco* court, in considering what it described as "shared consumers," was swayed by the fact that "the two products will be in direct competition with one another." *Id.* at 219. The *Nabisco* court also focused on actual confusion, again without explaining its inclusion of that factor in light of the statutory definition of "dilution." *Id.* at 221.

The Second Circuit followed its *Nabisco* decision in *Federal Express Corp. v. Federal Espresso, Inc.,* 201 F.3d 168 (2d Cir. 2000), a dispute between Federal Express, the international shipping business, and Federal Espresso, a wholesale distributor of espresso machines. Federal Express sought a preliminary injunction, claiming trademark infringement and dilution under the FTDA. The plaintiff's infringement claim—which required establishing a likelihood of confusion—failed at the district court level, given the dissimilarity of the products and services in question. *Id.* at 174. However, given the FTDA's history and intended purpose of providing relief to famous mark-holders in the absence of competition, it is perplexing that the district court also denied the plaintiff's claim under the FTDA, based partly upon the lack of proximity in the parties' goods. Even more perplexing is the Second Circuit's affirmance based almost exclusively upon the dissimilarity of the products offered. In explaining why it supported an injunction in *Nabisco*, but could not support relief in *Federal Express*, the Second Circuit focused on competition and confusion. "Here, in contrast, the principal products—coffee and overnight delivery service—are dissimilar; there would seem to be little likelihood of confusion." *Federal Express*, 201 F.3d at 178.

The *Nabisco* and *Federal Express* rulings illustrate the difficulty courts have had adding flesh to the FTDA. Indeed, courts have been unable to articulate the factors that bear on dilution without resort to the elements of traditional infringement analysis, elements that the statute says should be ignored. As a result, outside of domain name cases (which have followed a completely separate precedential path), no plaintiff has prevailed under the FTDA where the elements of a traditional infringement case were not also present. The "pure" dilution case, a case such as *Federal Express* or *Ringling Brothers,* involving entirely non-competitive, non-complementary goods, has not yet been won under the FTDA.

In *Eli Lilly & Co. v. Natural Answers, Inc., supra*, the Seventh Circuit took the strongest step of any of the appellate courts toward a pure dilution analysis. Eli Lilly, the maker of the anti-depressant drug Prozac, sued Natural Answers for trademark infringement and dilution over an herbal "mood elevating" treatment sold under the brand name Herbrozac. Finding that Eli Lilly had proven a likelihood of confusion, as well as a likelihood of dilution, the Seventh Circuit affirmed the district court's injunction on the basis of both infringement and dilution. In its likelihood-of-dilution analysis, the court criticized several of the dilution factors considered in *Nabisco* because they are relevant only to a confusion analysis. *Id.* at

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469 n.7. The *Eli Lilly* court offered its own two-factored test for a likelihood of dilution: (1) the similarity between the parties' marks; and (2) the renown of the plaintiff's mark. *Id*. at 468.

It would appear, then, that the pure trademark dilution case has the strongest chance of being analyzed without regard to competition and confusion if brought within the Seventh Circuit. However, the *Eli Lilly* case is not a pure dilution case. In its infringement analysis, the court found that "dietary supplements and drugs serve somewhat similar functions and… dietary supplements are an area of natural expansion for pharmaceutical companies." *Id*. at 463. Until *Eli Lilly* is applied in a case of noncompetitive products or services, the intellectual property bar must wait for the FTDA to take its intended effect of providing relief where traditional infringement analysis fails.

When Does "Distinctive" not Mean "Distinctive"?

On its face, the FTDA applies only to those trademarks that have acquired "fame." 15 U.S.C. §1125(c). This fame requirement is designed to limit the relief of the FTDA to "a selected class of marks—those marks with such powerful consumer association that even noncompeting uses can impinge on their value." *Avery Dennison Corp. v. Sumpton*, 189 F.3d 868 (9th Cir. 1999). However, in *TCPIP Holding Co. v. Haar Communications, Inc.*, 244 F.3d 88 (2d Cir. 2001), the Second Circuit, further developing concepts it had introduced in *Nabisco*, held that one class of trademarks—"descriptive trademarks"—can never enjoy the protections of the FTDA even if such a mark is undisputedly famous.

In evaluating traditional infringement cases, courts have developed a taxonomy for classifying marks according to their strength. *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9-11 (2d Cir. 1976). The taxonomy ranges from: (1) generic terms that merely identify the type of good or service being offered, *e.g.*, "baseball glove" for a baseball glove; (2) descriptive marks, which describe the product or one of its functions, *e.g.*, "American Airlines"; (3) suggestive marks, which hint at or are related to the product but require some mental leap in order to identify that relation, *e.g.*, "Greyhound" bus lines; (4) arbitrary marks which are dictionary words that do not describe or suggest an attribute of the product, *e.g.*, "Apple" computers; and (5) fanciful marks with no dictionary definition, *e.g.*, "Kodak." See *McCarthy on Trademarks and Unfair Competition*, *supra,* §§11.2-3. Generic terms may never serve as trademarks. Descriptive marks are not subject to trademark protection unless the trademark owner can demonstrate that, through use and promotion, the mark has acquired a second, non-descriptive meaning, so that consumers associate the term with the trademark claimant. *Id.* at §11.15. In such instances, an otherwise descriptive mark is said to have "acquired distinctiveness." *Id.* at §§11.2, 11.17. By contrast, the remaining categories of marks (suggestive, arbitrary, and fanciful) are thought to enjoy "inherent distinctiveness" and are protectable without a showing of a secondary meaning. *Id.* at §11.2.

In *TCPIP Holding*, the Second Circuit found that the plaintiff's mark for retail stores specializing in children's clothing, "The Children's Place," was descriptive. 244 F.3d at 96. The court further held that the plaintiff had presented sufficient evidence to prove that its mark had attained secondary meaning, and, therefore, acquired distinctiveness. *Id*. In addition, however, the court held that the plaintiff had failed to present evidence supporting a finding that the mark was famous, at least for the purposes of a preliminary injunction. *Id*. at 99.

While none of those rulings appear to be particularly controversial, the court went on to hold that, even if TCPIP Holdings could successfully demonstrate fame, it would still be denied relief under the FTDA because, under its reading of the Act, only inherently distinctive (*i.e.*, suggestive, arbitrary, or fanciful) marks are entitled to protection from dilution. *Id.* at 98. While the FTDA is designed to prohibit activities which "cause[] dilution of the *distinctive* quality of the mark," 15 U.S.C. §1125(c), nowhere does the statute draw a distinction between marks that are inherently distinctive and those with acquired distinctiveness. Nonetheless, the Second Circuit found it "unlikely that Congress could have intended that the holders of such [descriptive] marks would be entitled to claim exclusivity… throughout all areas of commerce." *TCPIP Holding*, 244 F.3d at 96-98 (according to the court, "descriptive marks do not qualify for the Act's protection, even if famous."). In essence, within the Second Circuit, a descriptive mark that has merely acquired its distinctiveness is not distinctive within the meaning of the FTDA. See also, *New York Stock Exchange, Inc. v. New York, New York Hotel, LLC*, 69 F.Supp.2d 479, 488 (S.D.N.Y. 1999).

Conclusion

The promise of the FTDA has never been delivered, as courts have struggled with its provisions. In the Fourth and Fifth Circuits, for instance, plaintiffs must show that the defendant has caused actual, measurable dilution. In other circuits, even if a court is inclined to apply a likelihood-of-dilution rather than an actual dilution test, plaintiffs may find themselves without remedy if no competition is found between the parties. Finally, in the Second Circuit, owners of marks that have become famous by way of acquired distinctiveness, rather than being inherently so, need not worry about the various methods for prevailing under the FTDA because the Act does not appear to protect such marks at all. FD