April 11, 2005

Report of the Federal
Legislation Committee of the Association
of the Bar of the City of New York

Proposed Amendment to
Federal Dilution Statute

I. Executive Summary

The Federal Legislation Committee of the Association of the Bar of the City of New York (the "Committee") opposes key aspects of the Trademark Anti-Dilution bill currently pending in Congress: H.R. 683, 109th Cong. (2005) ("H.R. 683"). The Committee has prepared this report and a draft of an alternative bill because it is concerned that H.R. 683 would provide famous mark holders with statutory rights that are greater than warranted or reasonable. This would impose unnecessary and unjustified restraints on competition and unfairly burden small businesses. In addition, H.R. 683 does not go far enough to eliminate inconsistencies in judicial interpretation and application that reflect both the difficulty in understanding the dilution doctrine and judicial skepticism toward it. Finally, the Committee believes that its proposal is more defensible against a challenge that the bill excessively impinges on free speech protected under the First Amendment.

Key components of the Committee's position are:

> To be protected, marks would have to have a "significant degree of inherent distinctiveness." This is a more stringent test than in H.R. 683 and would restrict use of the extraordinary exclusionary

rights of the anti-dilution law to only truly distinctive and famous marks.

The legal standard would be "likelihood of dilution," not actual dilution. This is consistent with H.R. 683.

Dilution protection should be limited to challenged usages on goods or services which are <u>not</u> similar to those in connection with which the senior mark is used. The extraordinary scope of the dilution doctrine is not needed in such cases because the traditional test of likelihood of confusion suffices in cases of conflicts between marks used on similar goods and services. This issue is not addressed in H.R. 683.

The federal anti-dilution law should preempt the approximately thirty varying state anti-dilution statutes rather than create a complex legal framework by keeping those state laws in a complicated coexistence along with the overlying federal law. This issue is not addressed in H.R. 683.

To ensure that the anti-dilution law is not used as a weapon against free speech and criticism of corporate policies, the law should contain a more robust set of statutory exceptions. Our proposal would include the ACLU-inspired fair use, parody and criticism exceptions along with a non-commercial use exclusion.

These issues are all discussed at length in this Report.

II. Background

A. Defining Dilution

1. In General

As Professor McCarthy has explained: "The dilution theory grants protection to strong, well-recognized marks even in the absence of a likelihood of confusion, if defendant's use is such as to diminish or dilute the strong identification value of the plaintiff's mark even while not confusing customers as to source, sponsorship, affiliation or connection." 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 24:70 (4th ed. 2004) (hereinafter cited as "McCarthy").

Commonly cited examples of diluting uses include DuPont shoes, Buick aspirin, Schlitz varnish, Kodak pianos, and Bulova gowns. See Sally Gee, Inc. v. Myra Hogan, Inc., 699 F.2d 621, 625 (2d Cir. 1983) (citing 1954 N.Y. Legis. Ann. 49); Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026, 1031 (2d Cir. 1989) (same). Because the diluting use, e.g., Buick for aspirin, is so far removed from the famous mark's area of commerce, consumers will very likely not be "confused" as to source in the traditional trademark sense (i.e., they will not believe that Buick aspirin emanated from the same source as the Buick automobile). Yet the dilution doctrine posits that the famous Buick mark should be protected from the junior usage because the second use will arguably detract from the uniqueness of the senior mark, and in the long run diminish the value of the senior mark.

In Thane International, Inc. v. Trek Bicycle Corp., 305 F.3d 894, 904 (9th Cir. 2002), the court observed that "the animating concern of the dilution protection is that the user of the diluting mark appropriates or free rides on the investment made by the trademark holder." The free-ride concept seems evident from the classic examples given above; why else would a marketer of pianos brand its product "Kodak," unless to take advantage of the existing fame of the Kodak mark in a different area of commerce? (The same could not necessarily be said for an entity which names its business "Apple." Although "APPLE" is a very strong mark in the computer area, it is also a commonly used word in many contexts.)

2. Difficulty In Articulating the Legal Theory

Notwithstanding dozens of comprehensive articles, almost eighty years of debate, and even at least one book devoted to the subject, dilution has proven to be very difficult to conceptualize. The Fourth Circuit characterized dilution by blurring as a "dauntingly elusive concept." Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449, 451 (4th Cir. 1999), overruled on other grounds by Moseley v. V Secret Catalogue, Inc., 537 U.S. 418 (2003).

Professor McCarthy, generally regarded as the pre-eminent trademark law scholar in the country, has this to say on the subject:

> No part of trademark law that I have encountered in my forty years of teaching and practicing IP law has created so much doctrinal puzzlement and judicial incomprehension as the concept of

> "dilution" as a form of intrusion on a trademark. It is a daunting pedagogical challenge to explain even the basic theoretical concept of dilution to students, attorneys, and judges. I have tried mightily. I believe that few can successfully explain it without encountering blank stares of incredulity or worse, nods of understanding which mask and conceal puzzlement and misconceptions.

J. Thomas McCarthy, Proving a Trademark Has Been Diluted: Theories or Facts?, 41 Hous. L. Rev. 713, 726 (2004).[1] Professor McCarthy adds, immediately following the quoted language, that during the Supreme Court argument in Moseley v. V Secret Catalogue, Inc., 537 U.S. 418 (2003) (hereinafter cited as "Moseley") none of the lawyers, including the representative from the Solicitor General's office, was able in response to questions from the Justices to explain the doctrine in a useful way. See McCarthy/Houston 2004 at 726 n.55.

Professor David S. Welkowitz has written a 450-page book on the subject of trademark dilution.[2] His explanation of the theory of dilution is contained in a 3-page discussion, and is described in terms of "source distraction":

> In addition to conjuring up the first user, and informing the consumer of a second distinct user, the second use must also lessen (even if very incrementally) the probability that, upon seeing or hearing (in the case of a word mark) the first user's mark, the consumer automatically will think of the first user. The idea behind dilution is that the perceived bond between the mark and the first user will be weakened, so that the consumer will not always think of the first user – sometimes it will think of another user. In short, diluting uses are source distractors. They turn one's attention away from the well-known source to another source. This source

[1] This is hereinafter cited as "McCarthy/Houston 2004."

[2] David S. Welkowitz, Trademark Dilution: Federal, State, and International Law (2002), & Supp. 2004 (cited as "Welkowitz").

> distraction causes two potential harms: (1) forcing the first user to advertise in a way that makes clear which user is the source of the goods or services being advertised under the brand name (instead of simply using the mark as the automatic symbol of the goods), and (2) making brand extensions to other products more complicated.

Welkowitz at 67.

To illustrate "source distraction" by using an early judicial decision (discussed below), the use of the mark "Tiffany" for a restaurant arguably "dilutes" the value of the mark to the world-renowned jewelry store. Professor McCarthy explains: "The idea that TIFFANY may identify a restaurant in Boston introduces a dissonance and clash even though customers realize it is not licensed by or connected with the jewelry store. The unique and distinctive link between the word TIFFANY and a certain fashionable jewelry store has been weakened." McCarthy at § 24:68.[3]

Having described this example, it is easier to understand why Professor McCarthy has had such difficulty teaching the doctrine. "Source distraction" and "dissonance and clash" are elusive concepts. They are not principles that easily lead one to conclude with confidence that the Tiffany jewelry store will in fact suffer economic harm or loss of good will on account of the Tiffany restaurant. One could, it seems, just as easily conclude that a customer

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[3] In Tiffany & Co. v. Boston Club, Inc., 231 F. Supp. 836, 845 (D. Mass. 1964), the court enjoined the defendant from using the name Tiffany for its Boston area restaurant and lounge "in an attempt to poach upon the commercial magnetism of the sterling trade name developed over the years by plaintiff."

who regularly patronizes a restaurant named Tiffany might be more, not less, likely to shop at Tiffany & Co. for jewelry, because to that patron the name Tiffany would be more "top-of-mind."

In addition, there are obviously in everyday life many "source distractors" for famous marks that are not in the "fanciful" (i.e., made-up) category. As noted, "APPLE" for computers is both famous, in the sense of acquired distinctiveness, and also "arbitrary," and therefore has a high degree of inherent distinctiveness. Yet there are many "apples" in everyday life, such as the fruit itself, and no doubt many businesses with "Apple" in the name which seemingly have not interfered with the marketing of computers. See, e.g., McCarthy/Houston 2004 at 738 (detailed discussion of the word "Amazon" and the mark AMAZON). One could even argue that famous marks linked together in consumer's minds, for example, COKE and PEPSI, also cause "dissonance" in that consumers asked what they "associate" with "COKE" would likely respond "PEPSI."

B. Types of Dilution

Historically, courts have recognized two types of dilution: dilution by blurring and dilution by tarnishment.

1. Blurring

"[D]ilution by 'blurring' may occur where the defendant uses or modifies the plaintiff's trademark to identify the defendant's goods and services, raising the possibility that the mark will lose its ability to serve as a unique identifier of the plaintiff's product." Deere & Co. v. MTD Prods., Inc., 41 F.3d 39, 43 (2d Cir. 1994). Blurring typically involves "'the whittling away of an established trademark's selling power and value through its unauthorized use by others upon dissimilar products.'" Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026, 1031 (2d Cir. 1989).

The term "dilution" appears to have originated in a 1924 German case, where the court cancelled the registration of plaintiff's well-known mouthwash trademark, ODOL, by defendant steel manufacturers. Reasoning that "when the public hears or reads the word ODOL, it thinks of the complainant's mouthwash, and that an article designated with the name ODOL leads the public to assume that it is of good quality," the court held that "complainant has 'the utmost interest in seeing that its mark is not diluted [verwassert]: it would lose in selling power if everyone used it as the designation of his goods.'" Frank I. Schechter, The Rational Basis of Trademark Protection, 40 Harv. L. Rev. 813 (1927), reprinted in 60 Trademark Rep. 334, 345-46 (1970) (cited as "Schechter").

In perhaps the earliest reported case addressing the concept of dilution, Eastman Photographic Materials Co. v. Kodak Cycle Co., 15 R.P.C. 105 (1898), a British court enjoined the defendant from selling Kodak bicycles because such use would diminish the Kodak brand name's significance as a unique identifier, even though consumers were not likely to believe that the film company sold bicycles.

2. **Tarnishment**

> "Tarnishment" generally arises when the plaintiff's trademark is linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context likely to evoke unflattering thoughts about the owner's product. In such situations, the trademark's reputation and commercial value might be diminished because the public will associate the lack of quality or lack of prestige in the defendant's goods with the plaintiff's unrelated goods, or because the defendant's use reduces the trademark's reputation and standing in the eyes of consumers as a wholesome identifier of the owner's products or services.

Deere & Co., 41 F.3d at 43.

Anti-tarnishment principles protect a senior user's quality connotations and goodwill against negative connotations or dissonant associations generated by a junior user's use of the same or similar mark. "The sine qua non of tarnishment is a finding that plaintiff's mark will suffer negative associations through defendant's use." Hormel Foods Corp. v. Jim Henson Prods., Inc., 73 F.3d 497, 507 (2d Cir. 1996).

Tarnishment "is usually found where a distinctive mark is depicted in a context of sexual activity, obscenity, or illegal activity." Deere & Co., 41 F.3d at 44. For example, in Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 467 F. Supp. 366 (S.D.N.Y.), aff'd, 604 F.2d 200 (2d Cir. 1979), the court found dilution was likely where filmmakers promoted "Debbie Does Dallas" by suggesting that Dallas Cowboys cheerleaders were participants and using actresses whose costumes closely resembled those of the Dallas Cowboys cheerleaders. In Pillsbury Co. v. Milky Way Productions, Inc., 215 U.S.P.Q. 124

(N.D. Ga. 1981), the court found dilution where defendant's magazine published a picture of figures resembling the trademarked "Poppin' Fresh" character engaged in various explicit sexual acts. In Anheuser-Busch, Inc. v. Andy's Sportswear, Inc., 40 U.S.P.Q.2d 1542 (N.D. Cal. 1996), the court held that the Budweiser mark was diluted by the use of "Buttwiser" on t-shirts.

C. How Dilution Differs From Trademark Infringement

Whereas trademark infringement law serves to protect not only the rights of trademark owners, but also to protect consumers from being misled as to a product's source, dilution only protects the rights of trademark holders. See Thane Int'l, Inc. v. Trek Bicycle Corp., 305 F.3d 894, 904 (9th Cir. 2002). The tests for the two causes of action also differ; whereas the essence of trademark infringement is the likelihood-of-confusion standard, dilution may be found "regardless of the presence or absence of . . . likelihood of confusion, mistake or deception." 15 U.S.C. § 1127.

D. State Statutes

The right to protect a trademark from "dilution" in the United States is almost exclusively based on statute. The first state to pass a dilution statute was Massachusetts, in 1947. As of 1994, approximately twenty-six states (including California, Illinois, and New York) had adopted identical or similar versions of the 1964 United States (now International) Trademark Association Model State Trademark Bill. Section 12 of the Model Bill provided injunctive relief where there was "[l]ikelihood of injury to business reputation or of dilution of the distinctive quality of a mark," regardless of whether there was competition between the parties or consumer confusion. In 1992, the Model Bill was revised to require that the mark be "famous" within the state. See McCarthy at §§ 24:80, 24:81.[4]

As noted, the state statutes "were seldom invoked and rarely resulted in findings of liability." McCarthy/Houston 2004 at 715. In 1987, an International Trademark Association ("INTA")[5] task force (the "INTA Commission") reported that over the forty years since the Massachusetts statute had been passed, "dilution protection has been fitful," and that there had been only a handful of cases in which injunctions were granted solely on dilution grounds. "The decisions have been inconsistent, the reasoning often illogical." United States Trademark Association Trademark Review Commission Report and Recommendations to USTA President and Board of Directors, 77 Trademark Rep. 375, 454-455 (1987).

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4 New York's General Business Law § 360-l (formerly § 368-d) provides injunctive relief for "[l]ikelihood of injury to business reputation or of dilution of the distinctive quality of a mark or trade name . . . notwithstanding the absence of competition between the parties or the absence of confusion as to the source of goods or services." N.Y. Gen. Bus. Law § 360-l (McKinney Supp. 2005).

5 "INTA" is also used herein to refer to the United States Trademark Association, its predecessor.

E. <u>Adoption of the Federal Dilution Statute</u>

The INTA Commission in 1987 recommended the adoption of a federal dilution statute, but Congress declined to take this route in the trademark law revision adopted in 1988. Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c) (also known as the Federal Trademark Dilution Act, or the "FTDA") became effective on January 16, 1996, with INTA serving as a prime advocate for its passage.

Dilution is defined in the existing federal statute as follows:

> The term "dilution" means 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. In addition, dilution protection was expressly limited to "famous" marks. On this issue, the INTA Commission had made the following observation in its report in 1987:

> We believe that a limited category of trademarks, those which are truly famous and registered, are deserving of national protection from dilution. Famous marks are most likely to be harmed by reduced distinctiveness. They are enormously valuable but fragile assets, susceptible to irreversible injury from promiscuous use.[6]

77 Trademark Rep. at 455.

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[6] The importance of a mark's fame to a dilution cause of action has apparently long been recognized. <u>See</u> E.H. Schopflocher, Annotation, <u>Actual competition as necessary element of trademark infringement or unfair competition</u>, 148 A.L.R. 12, 30 (1944).

The FTDA has spawned considerable federal court litigation. Professor McCarthy has estimated that as of the end of 2003, there were 400 judicial opinions under the federal dilution statute. See McCarthy/Houston 2004 at 715. Within a few years of the bill's passage, there had emerged several splits among the circuits on key issues regarding the proper interpretation of the statute and the scope of the dilution protection. These are discussed briefly below.

F. Court Decisions Under the FTDA

It is fair to say that the FTDA has received, at best, a lukewarm reception from the federal courts. For example, in Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development, 170 F.3d 449, 461 (4th Cir. 1999), overruled by Moseley v. V Secret Catalogue, Inc., 537 U.S. 418 (2003), the Fourth Circuit imposed an "actual economic harm" requirement in trademark dilution cases.[7] This test rendered the statutory protection of little practical significance, because actual economic harm is too difficult to establish. As other courts pointed out in rejecting that standard, "the Fourth Circuit's interpretation of the Act holds plaintiffs to an impossible level of

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[7] The Fifth Circuit followed the reasoning of Ringling Bros. in Westchester Media v. PRL USA Holdings, Inc., 214 F.3d 658 (5th Cir. 2000). Although the Ninth Circuit did not explicitly adopt the position of the Fourth Circuit, the United States District Court for the Central District of California did so in Playboy Enterprises, Inc. v. Netscape Communications Corp., 55 F. Supp. 2d 1070, 1088 n.22 (C.D. Cal.), aff'd mem., 202 F.3d 278 (9th Cir. 1999), stating: "The Act requires dilution; There is no remedy for 'likelihood of dilution.'"

proof." Eli Lilly & Co. v. Natural Answers, Inc., 233 F.3d 456, 468 (7th Cir. 2000).

In a case that was decided only five months after Ringling Bros., the Second Circuit rejected the position of the Fourth Circuit regarding the requirement of proof in dilution cases. In Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 224 (2d Cir. 1999), the court found that the Fourth Circuit's reading of the FTDA depended upon "excessive literalism to defeat the intent of the statute." The court held that to read the FTDA as the Ringling Bros. court did "would subject the senior user to uncompensable injury" because "[t]he statute could not be invoked until injury had occurred." Id.

In Nabisco, the Second Circuit adopted a "likelihood of dilution" standard. See 191 F.3d at 223-25. At the same time, however, the court limited dilution protection to "inherently distinctive" marks, a limitation not anticipated by anyone, certainly not INTA, the principal sponsor of the FTDA.

One reason for the chilly reception by the courts was explained by Judge Kozinski, in the context of evaluating a First Amendment defense to a dilution claim, as follows:

> First, depending on the strength and distinctiveness of the mark, trademark law grants relief only against uses that are likely to confuse. A trademark injunction is usually limited to uses within one industry or several related industries. Dilution law is the antithesis of trademark law in this respect, because it seeks to protect the mark from association in the public's mind with wholly unrelated goods and services. The more remote the good or service associated with the junior use, the more likely it is to cause dilution rather than trademark infringement. A dilution injunction, by

> contrast to a trademark injunction, will generally sweep across broad vistas of the economy.
>
> Second, a trademark injunction, even a very broad one, is premised on the need to prevent consumer confusion. This consumer protection rationale – averting what is essentially a fraud on the consuming public – is wholly consistent with the theory of the First Amendment, which does not protect commercial fraud. Moreover, avoiding harm to consumers is an important interest that is independent of the senior user's interest in protecting its business.
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> Dilution, by contrast, does not require a showing of consumer confusion, and dilution injunctions therefore lack the built-in First Amendment compass of trademark injunctions. In addition, dilution law protects only the distinctiveness of the mark, which is inherently less weighty than the dual interest of protecting trademark owners and avoiding harm to consumers that is at the heart of every trademark claim.

Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894, 904-05 (9th Cir. 2002) (citations omitted).

G. The Supreme Court's Decision in Moseley

In Moseley, decided in 2003, the principal issue before the Court was whether the plaintiff trademark holder had to prove "actual dilution." The Sixth Circuit, following the Second, had held that the standard was "likelihood of dilution," which is analogous to the "likelihood-of-confusion" standard applicable in federal trademark infringement lawsuits.

Reading the FTDA literally, the Supreme Court held that proof of actual dilution was required, although proof of actual injury was not. See id. at 432-34. The Court did not, however, explain what actual dilution was, or how to prove it.

H. **Decisions Since Moseley**

As a consequence of the Supreme Court's decision, there is a concern that the FTDA has been largely, if not completely, nullified. One of the problems is that "actual dilution" is a new concept since, under the state dilution statutes, the standard had been "likelihood of dilution." Most claims asserted under the state dilution statutes have been litigated in the federal courts, generally as claims joined with Lanham Act trademark infringement claims. Neither the parties nor the lower federal courts had to grapple with how to prove "actual dilution," since the standard had always been "likelihood of dilution." Furthermore, the Supreme Court in Moseley did not offer any useful guidance on the subject.

FTDA decisions since Moseley do bear out the concern that the FTDA is now almost totally ineffective. Research has uncovered few cases where the FTDA may actually make a difference, i.e., result in an injunction on the grounds of dilution where no injunction otherwise would have been granted on other grounds, such as trademark infringement or cybersquatting. See Howard J. Shire & Michelle Mancino Marsh, Federal Dilution Claims after Moseley v. V Secret Catalogue, 94 Trademark Rep. 1066, 1083 (2004) ("Courts are openly struggling to understand the kinds of proof necessary to demonstrate 'actual dilution.'").

In Savin Corp. v. Savin Group, 391 F.3d 439 (2d Cir. 2004), decided December 10, 2004, the court, interpreting arguably ambiguous language in the

Moseley decision, held that the complete identity of marks was circumstantial evidence of actual dilution. The application of the holding appears limited, however, since the court strictly construed the "identity" that was necessary, suggesting that minimal differences would make the principle inapplicable. See id. at 453; see also Everest Capital Ltd. v. Everest Funds Mgmt., L.L.C., 393 F.3d 755, 763 (8th Cir. 2005) (rejecting a "similarity" argument as "frivolous").

Even post-Moseley, there are still circuit court splits on issues such as market fame and the requirement of inherent distinctiveness. Compare, e.g., Times Mirror Magazines, Inc. v. Las Vegas Sports News, L.L.C., 212 F.3d 157, 164-65 (3d Cir. 2000) (holding that a mark famous in a niche field is entitled to protection from dilution where the two parties are operating in the same or related markets), with TCPIP Holding Co. v. Haar Communications Inc., 244 F.3d 88, 99 (2d Cir. 2001) (rejecting the concept of niche fame, finding it improbable that Congress intended to give "outright exclusivity to marks that are famous in only a small area or segment of the nation").

I. Analysis of the Schechter Article

The development of the dilution doctrine in the United States is generally traced to a law review article: Frank I. Schechter, The Rationale Basis of Trademark Protection, 40 Harv. L. Rev. 813 (1927), reprinted in 60 Trademark Rep. 334 (1970). In Moseley, the Supreme Court stated that "[t]he seminal discussion of dilution is found in Frank Schechter's 1927 law review article." 537

U.S. at 429. It is accordingly useful to analyze the article to see if it offers guidance on current issues.

In his article, Schechter objected to decisions that limited trademark protection to competing or closely related goods. He urged the courts to recognize that "once a mark has come to indicate to the public a constant and uniform source of satisfaction, its owner should be allowed the broadest scope possible for 'the national expansion of his trade' to other lines or fields of enterprise." 60 Trademark Rep. at 340.[8]

Schechter's principal focus, however, was on the issue of whether "the use of trademarks on entirely non-related goods may of itself concretely injure the owner of the mark even in the absence of [confusion]. If so, what is the injury, and to what extent, if any, should the law take cognizance of such injury?" Id. at 341. Schechter answered his own questions as follows:

> It is the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods. The more distinctive or unique the mark, the deeper is its impress upon the public consciousness, and the greater its need for protection against vitiation or dissociation from the particular product in connection with which it has been used.

Id. at 342.

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[8] Schechter's concerns on this issue appear to have been satisfactorily addressed over the years by the continued development of expansive trademark principles. See McCarthy/Houston 2004 at 721 (pointing out that JAGUAR perfume was held to be an infringement of JAGUAR for autos, and giving other comparable examples).

It seems apparent from both this quotation, and certainly the thrust of the article as a whole, that Schechter saw the protection against "gradual whittling away" as only applying to marks that were highly distinctive, in the "inherently" distinctive meaning of the term. Thus, quoting a Columbia Law Review article, Schechter cited the "principle that 'the value of the plaintiff's symbol depended in large part upon its uniqueness.'" Id. (citation omitted). See also id. at 339 (arguing that "the preservation of the uniqueness or individuality of the trademark is of paramount importance to its owner"). Ultimately, Schechter justified a right of dilution on the grounds that "arbitrary, coined, or fanciful marks or names should be given a much broader degree of protection than symbols, words or phrases in common use." Id. at 343.

Schechter's examples are helpful in defining his view of the scope of the dilution protection: marks such as BLUE RIBBON, SIMPLEX, ANCHOR, GOLD MEDAL, BULL DOG, UNIVERSAL, AND LILLY WHITE were not sufficiently distinctive to be protected. See id. at 343-44. The commonality among these marks is that they include terms or phrases that are prevalent in everyday usage. Marks that did qualify, according to Schechter, included ROLLS-ROYCE, AUNT JEMIMA'S, KODAK, MAZDA, CORONA, NUJOL, BLUE GOOSE, and RITZ-CARLTON. Id. at 344. Arguably, these terms and phrases would not exist in common parlance but for their introduction as brand names.

Although many of these latter terms are "coined" or "fanciful," not all of them are. A "blue goose," according to Schechter, is "'a North American wild goose having a grayish plumage resembling that of the young snow goose found chiefly during its migrations in the Mississippi Valley.'" Id. at 345. But Schechter points out that this particular animal is quite obscure. See id. at 344-45. A lion symbol, on the other hand, according to Schechter would not qualify for protection against whittling away. See id. at 344.

In sum, it appears likely that Schechter, the "parent" of U.S. dilution law, would not favor a statute that attempted to protect from dilution marks whose "uniqueness" was based on acquired distinctiveness. Indeed, under Schechter's analysis, even an "arbitrary" mark, such as APPLE for computers, would not be protected, because apple is simply too common a word. Nor would a lion for mutual fund services (as in Dreyfus). On the other hand, a mark such as Blue Goose would be protected, even though there is in nature a bird species with that name.

One final point remains to be made about the Schechter article – at no time did Schechter posit that the fame of a mark should be a prerequisite of dilution protection. Nor for that matter did Schechter envision or address the tarnishment aspect of dilution.

This raises the question of whether a merchant should be able to protect a truly unique mark before establishment of market fame. If the usage is purely a local one, say for a restaurant in one location, should that merchant be given a monopoly on the use of the term nationwide, on the mere possibility that the mark might someday be expanded nationally and become famous? On one hand, an argument could be advanced that the merchant should be credited and rewarded for her innovation in creating a unique name that expanded vocabulary. On the other hand, is it appropriate to give a business a "monopoly" over the use of a unique term if that term does not have a high degree of notoriety throughout the country?

Interestingly, it seems likely that Schechter would not have favored the "fame" requirement. Nevertheless, since market fame has now been widely accepted as an appropriate limitation on the scope of dilution protection, the Committee believes that it should be retained.

J. Constitutionality of a Dilution Statute

Although the issue seems never to have been litigated, because dilution is not based on consumer deception, it is worth considering whether the doctrine constitutes an impermissible restriction on truthful commercial speech under First Amendment principles. In Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894, 905 n.7 (9th Cir. 2002), the court noted: "It is entirely possible that a dilution injunction against purely commercial speech would run afoul of the First Amendment. Because that question is not presented here, we do not address it."[9]

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9 In I.P. Lund Trading ApS v. Kohler Co., 11 F. Supp. 2d 127 (D. Mass.), aff'd in part, vacated in part, 163 F.3d 27 (1st Cir. 1998), the district court considered, and rejected, the argument that a dilution claim based on trade dress violated the patent clause in art. I, § 8, cl. 8 of the United States Constitution.

In 1976, the Supreme Court held in Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc., 425 U.S. 748 (1976), that "commercial speech" is not wholly outside the protection of the First and Fourteenth Amendments. Four years later, in Central Hudson Gas & Electric Corp. v. Public Service Commission, 447 U.S. 557 (1980), the Supreme Court set forth a four-prong test to determine the protectability of commercial speech:

> At the outset, we must determine whether the expression is protected by the First Amendment. For commercial speech to come within that provision, it at least must concern lawful activity and not be misleading. Next, we ask whether the asserted governmental interest is substantial. If both inquiries yield positive answers, we must determine whether the regulation directly advances the governmental interest asserted, and whether it is not more extensive than is necessary to serve that interest.

Id. at 566.

The laws prohibiting trademark infringement and false advertising are consistent with the Supreme Court's holding in Central Hudson. The first prong of the Central Hudson test provides that no First Amendment protection exists for commercial speech concerning unlawful or misleading activity. In this regard, trademark infringement prohibits the use of a trademark only if such use is likely to cause consumer confusion, i.e., misleads consumers about the source of a product or service. Similarly, false advertising prohibits advertising claims only if the claims are either explicitly false or convey a misleading message to consumers about one's own products or services or a competitor's products or services. Dilution, however, principally occurs when consumers are not confused or misled.

Thus, a greater conflict with First Amendment principles arises in the dilution context.

Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894, 898-99 (9th Cir. 2002), involved a lawsuit brought by a toy manufacturer against various music companies who produced, marketed, and sold the song “Barbie Girl,” alleging, inter alia, dilution of Mattel’s famous BARBIE trademark. The Ninth Circuit affirmed the district court’s grant of summary judgment for defendants on Mattel’s dilution claims. Finding that the “Barbie Girl” song lampooned the Barbie image and commented humorously on the cultural values she purportedly represented, the court concluded that MCA’s use of the BARBIE mark fell within the “noncommercial use” exemption to the FTDA. Id. at 906-07.

Because the court resolved the plaintiff’s dilution claim under the noncommercial use exemption – which the court noted “diminishes some First Amendment concerns,” id. at 905 – as noted the court did not analyze the constitutionality of the FTDA under the Central Hudson test.

Therefore, under Central Hudson, the question remains, in dilution cases involving purely commercial speech, (i) whether the asserted governmental interest in prohibiting dilution is substantial, and if so, (ii) whether the FTDA directly advances the governmental interest asserted, and (iii) whether the FTDA is not more extensive than necessary to serve that interest. With regard to the governmental interest, the Mattel court noted that “dilution protects owners ‘from an appropriation of or free riding on’ the substantial investment that they have made in their marks." Mattel, Inc., 296 F.3d at 903 (quoting I.P. Lund Trading ApS v. Kohler Co., 163 F.3d 27, 50 (1st Cir. 1998)).

Courts likely would find that the governmental interest of encouraging investment in famous marks by protecting against free riding is substantial and directly advanced by the FTDA. However, unless courts find the FTDA narrowly tailored in service of the governmental interest, the Act could be deemed overly broad and invalid under the First Amendment.

III. H.R. 683/INTA's Proposed Amendment

As eloquently stated by Professor McCarthy, "[m]any members of the trademark bar reflexively recoiled in alarm and dismay at the [Supreme Court's] reading of the FTDA in Victoria's Secret." McCarthy/Houston 2004 at 716. Following the decision, INTA appointed a select committee to study the statute in light of Moseley. The result was proposed legislation, which as noted had its debut as a "committee print" bill in a hearing on April 22, 2004, before the Subcommittee on Courts, the Internet, and Intellectual Property of the House Committee on the Judiciary (the "Subcommittee"). The committee print bill would have amended the Lanham Act by making "likelihood of dilution" the statutory standard, thus overriding Moseley.

In the April, 2004 hearings, INTA's president testified in support of the bill. The Chair of the Intellectual Property Law Section of the American Bar Association and the Executive Director of the American Intellectual Property Law Association ("AIPLA") supported legislation to nullify Moseley, but argued that the committee print bill did not go far enough in expanding the protection against dilution. The ACLU, on the other hand, testified against the bill (and against any expansion of the federal dilution law) on First Amendment/free speech grounds.

Similar positions were later taken in the hearings on H.R. 683 in February, 2005. Eventually, however, the three trademark bar groups coalesced around a compromise draft proposal, and the ACLU withdrew its opposition in exchange for the addition of an exclusion which would protect the use of trademarks for the purpose of parody, criticism, and comment on the famous mark.

A. Analysis of H.R. 683

There are several significant distinctions between the FTDA and H.R. 683:

1. Dilution By Tarnishment

The proposed revised statute expressly states that dilution by tarnishment is within the scope of the law. This clarifies the ambiguity created by the Supreme Court's comments in Moseley:

> The District Court's decision in this case rested on the conclusion that the name of petitioners' store "tarnished" the reputation of respondents' mark, and the Court of Appeals relied on both "tarnishment" and "blurring" to support its affirmance. Petitioners have not disputed the relevance of tarnishment, presumably because that concept was prominent in litigation brought under state antidilution statutes and because it was mentioned in the legislative history. Whether it is actually embraced by the statutory text, however, is another matter. Indeed, the contrast between the state statutes, which expressly refer to both "injury to business reputation" and to "dilution of the distinctive quality of a trade name or trademark," and the federal statute which refers only to the latter, arguably supports a narrower reading of the FTDA.

537 U.S. at 432 (emphasis added; citation omitted).

2. Acquired Distinctiveness

The proposed revised statute expressly states that famous marks with either inherent or acquired distinctiveness are eligible for protection. This overrules the approach in the Second Circuit, which had held that famous marks with acquired distinctiveness are excluded from dilution protection. See TCPIP

Holding Co. v. Haar Communications Inc., 244 F.3d 88, 98 (2d Cir. 2001). Although this was arguably based on a statutory interpretation, the holding also reflected the Court's view that the federal dilution right should not as a matter of policy apply to marks that were not inherently distinctive.

In TCPIP Holding Co., the court held that the mark THE CHILDREN'S PLACE for stores for children's clothing and accessories was descriptive and thus lacked inherent distinctiveness, and accordingly could not qualify for protection under the FTDA. Id. In so holding, the court noted:

> Against a background of policies that strongly disfavor marks lacking inherent distinctiveness, according them only narrow protection, we think it highly unlikely that Congress intended to extend to such marks the expanded rights conferred by the Dilution Act . . . .
>
> The tenuous compromise wrought by the Lanham Act, according descriptive marks the minimum degree of protection, would be seriously distorted if such marks now became entitled to the much broader scope of exclusivity accorded by the Dilution Act . . . . Some of the holders of these inherently weak marks are huge companies; as a function of their commercial dominance, their marks have become famous. It seems unlikely that Congress could have intended that the holders of such non-distinctive marks would be entitled to claim exclusivity for them throughout all areas of commerce.

Id. at 95-96. The court cited several examples of inherently weak marks that have acquired nationwide prominence, including American, United, and Continental Airlines, Metropolitan Life, and Allied Chemical. Id. at 96 n.8. Under H.R. 683, owners of these marks would presumably be eligible for protection.

3. <u>Fame</u>

The revision defines the scope of fame as being limited to marks that are "widely recognized by the general consuming public of the United States," thus endorsing the Second Circuit's approach. In <u>TCPIP Holding Co.</u>, 244 F.3d at 99, the court expressly rejected the concept of "niche" market fame:

> It seems most unlikely that Congress intended to confer on marks that have enjoyed only brief fame in a small part of the country, or among a small segment of the population, the power to enjoin all other users throughout the nation in all realms of commerce. The examples of eligible "famous marks" given in the House Report – DuPont, Buick, and Kodak – are marks that for the major part of the century have been household words throughout the United States. They are representative of the best known marks in commerce . . . . Putting together the extraordinary power the Act confers on a "famous" mark and the improbability that Congress intended to grant such outright exclusivity to marks that are famous in only a small area or segment of the nation, with the hints to be gleaned from the House Report, we think Congress envisioned that marks would qualify as "famous" only if they carried a substantial degree of fame.

<u>Id.</u> at 99 (citation omitted).

H.R. 683 thus rejects the approaches taken by circuits which have recognized niche market fame. <u>See, e.g.</u>, <u>Times Mirror Magazines, Inc. v. Las Vegas Sports News, L.L.C.</u>, 212 F.3d 157, 164 (3d Cir. 2000) ("[A] mark not famous to the general public is nevertheless entitled to protection from dilution where both the plaintiff and defendant are operating in the same or related markets, so long as the plaintiff's mark possesses a high degree of fame in its niche market."); <u>Advantage Rent-A-Car, Inc. v. Enterprise Rent-A-Car Co.</u>, 238 F.3d 378, 380 (5th Cir. 2001) (Enterprise needed only to show its mark was "famous within the car rental industry, not in a broader market"); Syndicate Sales, Inc. v. Hampshire Paper Corp., 192 F.3d 633, 641 (7th Cir. 1999) (statutory language "indicates that fame may be constricted to a particular market"); Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 877-78 (9th Cir. 1999) ("fame in a localized trading area" may be sufficient "if plaintiff's trading area includes the trading area of the defendant"; specialized fame may be adequate if the "'diluting uses are directed narrowly at the same market segment'") (citation omitted).

The proposed amendment also rejects non-consumer fame. Accordingly, presumably marks such as ADP (software and hardware used in connection with payroll processing and employment record-keeping) and SOROS FUND MANAGEMENT (financial services associated with George Soros), which are no doubt extremely well known in business circles but not to the general consuming public, would not be protected under the proposed dilution statute. Also presumably excluded are marks that are famous only in a limited geographic region, such as MARSHALL FIELD'S (a department store chain located in the Upper Midwest region of the United States) and DUANE READE (a drugstore chain located throughout New York).

4. "Designation of Source" Limitation

As initially proposed by INTA, H.R. 683 had expressly limited the dilution cause of action to a defendant using the challenged mark as a "designation of source" for the defendant's own goods or services. The purpose of that provision was to address First Amendment concerns.[10] Prior federal cases, applying state law, had enjoined a defendant's use of the plaintiff's mark in a parody situation where the mark arguably did not function as a source identifier. See, e.g., Pillsbury Co. v. Milky Way Prods., Inc., 215 U.S.P.Q. 124, 135 (N.D. Ga. 1981) (applying Georgia law) (enjoining cartoon portrayal of plaintiff's trade characters "Poppin' Fresh" and "Poppie Fresh" engaged in sexual intercourse and fellatio published in adult magazine); Coca-Cola Co. v. Gemini Rising, Inc., 346 F. Supp. 1183, 1190-91 (E.D.N.Y. 1972) (applying New York law) (enjoining "Enjoy Cocaine" posters because customers might be "turned off" by so-called "spoof").

In the bill that emerged as the compromise among the trademark-bar interests, the "designation of source" language was deleted. The proposed bill, however, still contains the language from the current legislation which restricts dilution challenges to a use "of a mark or trade name." Because a "mark or trade name" is by definition a "designation of source," the omitted language was arguably redundant in any event.

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[10] See testimony of Jacqueline A. Leimer, President of INTA, dated April 22, 2004, which can be found on the Subcommittee's website, available at http://judiciary.house.gov/Oversight.aspx?ID=52.

5. Likelihood of Dilution

The statutory standard would become likelihood of dilution, rather than actual dilution, thus overruling Moseley on this key point.

6. Actual Economic Injury

The proposed amendment makes clear that a showing of "actual economic injury" is not required. This is consistent with Moseley, where the Court held that although a showing of actual dilution was required, "the consequences of dilution, such as an actual loss of sales or profits," need not be proved. 537 U.S. at 433.

7. Exclusions

The current statute excludes (i) fair use for comparative commercial advertising, (ii) noncommercial use of a mark, and (iii) all forms of news reporting and news commentary.

H.R. 683 retains the first and the third exclusions, but replaces the second with the following:

> (B) Fair use of a famous mark by another person, other than as a designation of source for the person's goods or services, including for purposes of identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.

In addition, the current requirement that defendant's use be a "commercial use in commerce" would be changed by H.R. 683 by dropping the "commercial use" limitation.

The deletion of the "non-commercial use" exemption would likely now have the statute cover uses of a mark that fell within the scope of First Amendment rights. See Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894, 905-6 (9th Cir. 2002) (applying exclusion to use of mark "Barbie" in a popular song and in the song's title). In Mattel, the court analyzed the statute and its legislative history, and concluded that "the bill's sponsors relied on the 'noncommercial use' exemption to allay First Amendment concerns." Id. at 906 (citing H.R. Rep. No. 104-374 (1995)). By eliminating this exclusion, H.R. 683 would force litigants and the courts to confront the First Amendment limitations of the federal dilution law.

The new, ACLU-inspired "parody" exclusion is presumably intended to exclude certain non-commercial uses from dilution coverage, while including others, with the difference decided under the undefined "fair use" rubric. The existing case law under the "fair use" doctrine, as applied in trademark context, is unlikely to offer much guidance on how to apply this exclusion.

For background on this provision, we refer to the testimony of Marvin J. Johnson, Legislative Counsel to the ACLU, who testified in opposition to the proposed dilution amendment both at the April 22, 2004 hearing on the committee print and at the February 17, 2005 hearing on H.R. 683.[11]

[11] For purposes of this discussion, we are using Mr. Johnson's prepared statement submitted on February 17th. Mr. Johnson's testimony can be found on the Subcommittee's website, available at http://judiciary.house.gov/Hearings.aspx?ID=81.

The ACLU's position was that a likelihood-of-dilution standard would improperly encroach upon speech that should be protected by the First Amendment. Accordingly, the ACLU argued that the current, actual-dilution standard should be retained, because it requires a higher level of proof to establish dilution.

The principal thrust of Mr. Johnson's testimony related to the ACLU's opposition to the tarnishment "prong" of dilution. Tarnishment is more likely to be used to challenge speech that could fairly be considered to constitute parody or contain criticism. The ACLU also advocated, in the event the statute is amended, an expansion of the fair-use defense to dilution to encompass all forms of fair use, not just the statutory fair use.

A central part of Mr. Johnson's criticism of H.R. 683 involved the ACLU's concern with two pre-Moseley decisions, in which the courts arguably sustained as legally sufficient dilution claim challenges to statements highly critical of a mark holder. In World Wrestling Federation Entertainment, Inc. v. Bozell, 142 F. Supp. 2d 514 (S.D.N.Y. 2001), the defendants had embarked on a public relations campaign claiming that the WWF was in part responsible for the deaths of several children killed by teenage wrestling fans who claimed to be mimicking WWF wrestling moves. The court denied a motion to dismiss the dilution claim.

The second case, Scholastic, Inc. v. Stouffer, 124 F. Supp. 2d 836 (S.D.N.Y. 2000), involved the world-renowned author J.K. Rowling and a type of character from the famous “Harry Potter” book series. Stouffer, the counterclaimant, alleged that she was the prior originator of the term “Muggles,” which she claimed to have used in children’s stories and books. Id. at 840. The counterclaim at issue alleged that Scholastic had diluted her mark by accusing Stouffer of being a “golddigger,” and characterizing her assertions as “absurd,” “meritless,” and “ridiculous.” Id. at 849. All of Stouffer’s counterclaims, including her dilution claim, were eventually dismissed on other grounds. See Scholastic, Inc. v. Stouffer, 221 F. Supp. 2d 425 (S.D.N.Y. 2002), aff’d, 81 Fed. Appx. 396 (2d Cir. 2003).[12]

These two cases provide examples of the type of “criticism” of the famous mark holder with which the ACLU was concerned.

B. Key Aspects of House Report 109-23

Interesting aspects of the House Report supporting H.R. 683[13] are as follows:

1. The Report states that one of the purposes of the FTDA was “to promote uniformity and certainty for trademark owners,” but never tries to reconcile this goal with the failure to preempt state dilution statutes. House Report at 4.

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12 Mr. Johnson also cited a lawsuit, Farmers Group, Inc. v. Guerrero, filed in federal court in Spokane, Washington, which allegedly challenged a “gripe site” as dilutive of plaintiff’s mark.

13 H.R. Rep. No. 109-23 (2005) (hereinafter cited as “House Report”).

2. In discussing Moseley, the Report refers to the testimony of an INTA representative who observed that "'[b]y the time measurable, provable damages to the mark has occurred much time has passed . . . .'" Id. at 5. This Report further states that "in response to the *Mosely* [sic] decision, actual harm is not a prerequisite to injunctive relief." Id. at 8. These references show a lack of understanding of Moseley, which required proof of actual dilution, not actual damages.

3. The Report specifically quotes the likelihood-of-dilution factors (i) "the degree of . . . acquired distinctiveness of the famous mark," and (ii) "the degree of recognition of the famous mark," without recognizing the redundancy. Id. at 8.

4. There is no discussion of the reasons for repealing the "non-commercial use" exclusion.

5. The Minority Report of Congressman Howard L. Berman recognizes that because protection against dilution is "more akin to property protection than consumer protection . . . any anti-dilution legislation should be carefully and narrowly crafted." Id. at 25. He also expresses the hope that "the dilution remedy will be used in the rare circumstance and not as the alternative pleading." Id. at 25.

IV. Discussion of The Committee's Proposal

The Committee's proposed bill is attached hereto. We started with H.R. 683, and made the changes described below.

1. Preemption

The Committee's bill would preempt state dilution statutes. As noted, the federal statute was intended to bring "uniformity" to dilution law.[14] The current statute has clearly not done this. See, e.g., Savin Corp. v. Savin Group, 391 F.3d 439, 454-56 (2d Cir. 2004) (contrasting the New York likelihood-of-dilution standard with the federal actual-dilution standard.)

H.R. 683 does preempt state dilution law for marks that are federally registered. This is a preemption provision (not referred to as such) which tends to help protect businesses with entrenched trademark positions.

2. Distinctiveness

We recommend following the Second Circuit's approach, which requires that the senior mark must possess "'a significant degree of inherent distinctiveness.'" Savin Corp., 391 F.3d at 449 (citation omitted). In addition, we have added to the likelihood-of-dilution factors whether the famous mark is fanciful, thus indicating that fanciful marks are entitled to a greater degree of protection than highly distinctive marks that are not fanciful.

[14] See House Report at 4; see also undated Report of the INTA Proof of Dilution Subcommittee of the Dilution and Well-Known Marks Committee.

H.R. 683 would permit a mark owner to show distinctiveness through acquired distinctiveness, thus protecting marks such as "New York Stock Exchange" from dilution.[15] The Committee rejected that approach because, to use this example, given the hundreds, if not thousands, of common usages of "New York," "Stock Exchange," and "Exchange," it is hard to see why or how the dilution doctrine should, or would, apply to this undoubtedly famous mark.

In testimony in the February, 2005 hearings on H.R. 683, Stanford Law Professor Mark Lemley argued that marks with acquired distinctiveness should be protected so as to provide dilution protection to a mark such as "McDonald's."[16] The TTAB did conclude that McDonald's mark is descriptive because it is derived from a family name. In re McDonald's Corp., 230 U.S.P.Q. 304 (T.T.A.B. 1986). However, more recent federal cases could help make the case that McDonald's is in fact inherently distinctive, and is not merely descriptive. See Peaceable Planet, Inc. v. Ty, Inc., 362 F.3d 986, 990 (7th Cir.) (refusing to apply the "personal names" rule to situations where "the public is unlikely to understand the personal name as a personal name"), cert. denied sub nom. Ty, Inc. v. Peaceable Planet, Inc., 125 S.Ct. 275 (2004). See also Patsy's

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15 The "New York Stock Exchange" mark was the example given by AIPLA in its prepared testimony of February 17, 2005, in advocating that "an unfortunate line of cases from the Second Circuit" be overruled. See testimony of William G. Barber, found on the Subcommittee's website, available at http://judiciary.house.gov/Hearings.aspx?ID=81.

16 Professor Lemley's testimony can be found on the Subcommittee's website, available at http://judiciary.house.gov/Hearings.aspx?ID=81.

Brand, Inc. v. I.O.B. Realty, Inc., 317 F.3d 209, 217 (2d Cir. 2003) ("[A] personal name rendered in a distinctive lettering style may be considered strong even without a showing of secondary meaning.").

In addition, an informal online search indicates that there are thousands of existing businesses which include the name "McDonald," suggesting that use of the proper name has not interfered with the strength of the famous mark for the fast food business. Reference to McDonald's is accordingly a poor example upon which to base an unwarranted expansion of the federal dilution right.

Finally, this change will inevitably lead to more litigation than is justified, and give well-financed holders of famous but non-distinctive marks the ability to use lawsuits of questionable merit against third parties less financially able to defend federal court lawsuits to achieve their objectives. Cf. Wal-Mart Stores, Inc. v. Samara Bros., Inc., 529 U.S. 205, 213 (2000). ("Consumers should not be deprived of the benefits of competition with regard to the utilitarian and esthetic purposes that product design ordinarily serves by a rule of law that facilitates plausible threats of suit against new entrants based upon alleged inherent distinctiveness.").[17]

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[17] In H.R. 683, as noted, in the likelihood of dilution factors, the bill cites "the degree of . . . acquired distinctiveness," as well as "the degree of recognition" of the famous mark. It is not clear whether anything is intended by this redundancy.

3. <u>Likelihood of Dilution</u>

We agree with INTA that the standard should be likelihood of dilution, which allows for federal court balancing of interests under a multi-factor test, and does not require a plaintiff to wait until it can establish that it has incurred actual harm before commencing an action.

The adoption of the likelihood-of-dilution standard, moreover, would also help to eliminate a conflict in standards between federal courts and the United States Patent and Trademark Office.

In <u>Toro Co. v. ToroHead, Inc.</u>, 61 U.S.P.Q.2d 1164, 1174 (T.T.A.B. 2001), decided prior to <u>Moseley</u>, the Trademark Trial and Appeal Board ("TTAB") held that, in a situation involving an intent-to-use application, a plaintiff alleging dilution could proceed under a likelihood-of-dilution standard. This holding was reaffirmed following <u>Moseley</u> under the rationale that Congress intended, based on the language of the Lanham Act dealing with dilution claims in TTAB proceedings, to allow cases involving prospective dilution to be heard by the TTAB. The TTAB reasoned that construing the appropriate standard to be actual dilution in an intent-to-use situation (<u>i.e.</u>, where the mark had never yet been used) would render the statutory language and congressional intent meaningless. <u>See</u> <u>Dream Merchant Co. v. Fremonster Theatrical</u>, No. 91152686, 2004 TTAB LEXIS 347, at *20 (T.T.A.B. June 17, 2004); <u>Time Warner Entm't Co. v. FTC Communications, Inc.</u>, No. 91119934, 2004 TTAB LEXIS 174, at *8-9 & n.14 (T.T.A.B. Mar. 23, 2004).

The TTAB, however, has yet to address whether a plaintiff in an opposition involving a use-based application must demonstrate actual dilution or a likelihood of dilution. See Dream Merchant Co., 2004 TTAB LEXIS 347, at *21 (stating that deciding on the appropriate standard was not necessary because plaintiff's claim failed regardless of the showing required); Time Warner, 2004 TTAB LEXIS 174, at *8-9 & n.14 (denying opposer's motion for summary judgment).

4. Relationship to Trademark Infringement

We recommend adding to the statute a limitation that the likelihood-of-dilution test applies only to challenged uses which are not similar to those in connection with which the senior mark is also used. With this limitation, there would not be an overlap between trademark infringement and dilution except in a small percentage of cases. The rationale is that there is no need to extend the dilution doctrine into an area where it is not necessary. A famous mark owner should be able to establish infringement against a competitor. If it cannot, it should not be free to try to obtain an injunction based on a different legal theory.

5. Tarnishment

The Committee agrees with INTA that tarnishment should be addressed in the new statute.

6. Fame

The Committee agrees with H.R. 683 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." We propose, however, to eliminate the statutory "fame" standards, believing that the courts are better able to develop these on a case-by-case basis.

7. <u>Exclusions</u>

As noted, the current statute has an express exception for the fair use of a famous mark for comparative advertising or promotion to identify competing goods. The Second Circuit has held that other forms of fair use are also excluded from the statute's coverage, even though not expressly referred to in the statute. <u>See</u> <u>TCPIP Holding Co. v. Haar Communications Inc.</u>, 244 F.3d 88, 103-04 & n.12 (2d Cir. 2004). We recommend including all forms of fair use in the statute, and have added language to that effect.

The Committee's proposal would also adopt the ACLU-inspired fair use/parody/criticism provision, but would not delete the non-commercial use exclusion in the statute.

V. The Committee's Proposed Bill

A BILL
To amend the Trademark Act of 1946 with respect to the protection of famous marks against dilution.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

(a) SHORT TITLE. - This Act may be cited as the "Trademark Dilution Revision Act of 2005."

(b) REFERENCES. - Any reference in this Act to the Trademark Act of 1946 shall be a reference to the Act entitled "An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes," approved July 5, 1946 (15 U.S.C. 1051 et seq.).

SECTION 2. DILUTION BY BLURRING; DILUTION BY TARNISHMENT

Section 43 of the Trademark Act of 1946 (15 U.S.C. 1125) is amended –

(1) by striking subsection (c) and inserting the following:

"(c) FEDERAL PROTECTION AGAINST DILUTION

"(1) INJUNCTIVE RELIEF. - Subject to the principles of equity, the owner of a mark that is both famous and possesses a high degree of inherent distinctiveness shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use in commerce, outside of the area or areas of commerce of the senior mark, of a mark or trade name that is likely to cause dilution, by blurring or by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury. Dilution (by blurring or by tarnishment) refers to a meaningful erosion of the famous mark's significance as a mark representing the source of goods and/or services of the mark owner, whether by loss of uniqueness or because of harm to the reputation of the famous by mark.

"(2) For purposes of paragraph (1), 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.

"(3) For purposes of determining whether dilution by blurring is likely, the court may consider all relevant factors, including but not limited to the following:

"(i) The degree of similarity between the mark or trade name and the famous mark.

"(ii) The degree of inherent distinctiveness of the famous mark, including whether the famous mark is fanciful.

"(iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.

"(iv) The degree of recognition of the famous mark.

"(v) Whether the second user willfully intended to trade on the recognition or reputation of the famous mark.

"(vi) Any actual association between the designation of source and the famous mark.

"(4) For purposes of determining whether dilution by tarnishment is likely, the Court may consider all relevant factors, including the harm to the reputation of the senior mark caused by the junior use.

"(5) EXCLUSIONS. - The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:

"(A) Fair use of a famous mark by another person, in comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark or otherwise.

"(B) Fair use of a famous mark by another person, other than as a designation of source for the person's goods or services, including for purposes of identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.

"(C) All forms of news reporting and news commentary.

"(D) Non-commercial use of a designation of source.

"(6) ADDITIONAL REMEDIES. - In an action brought under this subsection, the owner of the famous mark shall be entitled only to injunctive relief as set forth in section 34, except that, if –

"(A) the person against whom the injunction is sought did not use in commerce, prior to the date of the enactment of the Trademark Dilution Revision Act of 2005, the mark or trade name that is likely to cause dilution by blurring or dilution by tarnishment, and

"(B) in a claim arising under this subsection –

"(i) by reason of dilution by blurring, the person against whom the injunction is sought willfully intended to trade on the recognition of the famous mark, or

"(ii) by reason of dilution by tarnishment, the person against whom the injunction is sought willfully intended to harm the reputation of the famous mark,

the owner of the famous mark shall also be entitled to the remedies set forth in sections 35(a) and 36, subject to the discretion of the court and the principles of equity.

"(7) PREEMPTION OF STATE DILUTION STATUTES AND COMMON LAW RIGHTS. - In order to ensure uniformity of application of dilution rights, and in light of the general recognition that to qualify for dilution protection a mark should be famous, i.e. widely recognized by the general consuming public of the United States as a designation of the source of the goods or services of the mark's owner, state and local dilution statues and common law rights are preempted.

SECTION 3. CONFORMING AMENDMENTS

(a) MARKS REGISTRABLE ON THE PRINCIPAL REGISTER. - Section 2(f) of the Trademark Act of 1946 (15 U.S.C. 1052(f)) is amended by striking the last two sentences and adding at the end the following: "A mark which would be likely to cause dilution by blurring or dilution by tarnishment under section 43(c), may be refused registration only pursuant to a proceeding brought under section 13. A registration for a mark which would be likely to cause dilution by blurring or dilution by tarnishment under section 43(c), may be canceled pursuant to a proceeding brought under either section 14 or section 24.".

(b) OPPOSITION. - Section 13(a) of the Trademark Act of 1946 (15 U.S.C. 1063(a)) is amended in the first sentence by striking "as a result of dilution" and inserting "the registration of any mark which would be likely to cause dilution by blurring or dilution by tarnishment".

(c) CANCELLATION. - Section 14 of the Trademark Act of 1946 (15 U.S.C. 1064) is amended, in the matter preceding paragraph (1), by striking ", including as a result of dilution under section 43(c)," and inserting "(i) for which the constructive use date is after the date on which the petitioner's mark became famous and which would be likely to cause dilution by blurring or dilution by tarnishment under section 43(c), or (ii) on grounds other than dilution by blurring or dilution by tarnishment:" after "February 20, 1905".

(d) MARKS FOR THE SUPPLEMENTAL REGISTER. - The second sentence of Section 24 of the Trademark Act of 1946 (15 U.S.C. 1092) is amended to read as follows: "Whenever any person believes that such person is or will be damaged by the registration of a mark on the supplemental register (i) for which the effective filing date on which such person's mark became famous and which would be likely to cause dilution by blurring or dilution by tarnishment under section 43(c), or (ii) on grounds other than dilution by blurring or dilution by tarnishment, such person may at any time, upon payment of the prescribed fee and the filing of a petition stating the ground therefore, apply to the Director to cancel such registration.".

(e) DEFINITIONS. - Section 45 of the Trademark Act of 1946 (15 U.S.C. 1127) is amended by striking the definition relating to "dilution".

*   *   *

Respectfully submitted,

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