

Victoria's Secret and the Ever Elusive Dilution Doctrine

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INTRODUCTION

Owners of famous trademarks have a heavier burden in keeping small players at bay now that the U.S. Supreme Court has held that trademark owners must prove actual dilution in order to prevail under the Federal Trademark Dilution Act of 1996.

BACKGROUND

Dilution law provides owners of famous marks a remedy against uses that diminish a mark's ability to distinguish goods and services, regardless of competition or a likelihood of confusion among consumers. The high Court recently put this controversial legal theory to the test in *Victor Moseley, et al. v. V Secret Catalogue, Inc., et al.*, No. 01-1015. In a unanimous decision issued on March 4, 2003, the Court held that an adult merchandise retailer, at least for the present, may operate under the name "Victor's Little Secret" because the lingerie giant, Victoria's Secret, produced no evidence on summary judgment that the name actually diluted its VICTORIA'S SECRET trademark. The case has been remanded for further proceedings.

The Supreme Court's holding is a blow to owners of famous marks such as VICTORIA'S SECRET. It undermines the expanded doctrine of trademark protection and leaves open almost as many questions as it answers about the types of proof required to protect famous marks from dilutive uses.

Trademark dilution theory was introduced by Yale University scholar Frank Schechter in 1927, and was considered a radical departure from traditional trademark infringement protection. Although not labeling his theory "dilution," Schechter

set forth the foundation of dilution law by focusing on the value of the uniqueness of a trademark. Schechter's theory recognized that trademarks could extend beyond indicators of the source of goods, to free-standing embodiments of quality and value, worthy themselves of independent protection. Schechter warned that trademarks must be protected against even trivial, non-competing uses of a mark that over time cause a "gradual whittling away or dispersion of the identity . . . of the mark." Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 825 (1927). Dilution theory thus expands exponentially the types of trademark violations that are legally actionable.

SPLIT AMONG THE CIRCUIT COURTS

Although at least twenty-five states enacted anti-dilution laws in the wake of Schechter's breakthrough theory, it was not until 1996 that federal legislation passed prohibiting dilutive use of another's famous mark in the form of the Federal Trademark Dilution Act, 15 U.S.C. §§ 1125(c), 1127 (1996).

Wary of the powerful effects of the dilution doctrine, certain federal Courts of Appeals sought to limit the new law by requiring that famous trademark owners prove dilution through objective evidence of actual economic harm to the mark's value. See, e.g., *Ringling Bros.-Barnum & Bailey Combined Shows, Inc.*, 170 F.3d 449, 453 (4th Cir. 1999) (requiring proof of economic harm); *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 670 (5th

Cir. 2000) (endorsing the Fourth Circuit's approach).

Another group of appellate courts preferred circumstantial proof of a "likelihood of dilution" of a mark's distinctive quality. See, e.g., *Nabisco, Inc. v. Pepperidge Farms, Inc.*, 191 F.3d 208, 224 (2d Cir. 1999) (rejecting the Fourth Circuit's approach and requiring only proof of a likelihood of dilution); *Times Mirror Magazines, Inc. v. Las Vegas Sports News, LLC*, 212 F.3d 157, 169 (3d Cir. 2000) (applying the Second Circuit factors to find a likelihood of dilution); *Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 468 (7th Cir. 2000) (concluding that "the Fourth Circuit's interpretation of the Act holds plaintiffs to an impossible level of proof"). This more liberal interpretation of the FTDA paralleled the "likelihood" of confusion standard in trademark infringement actions. A "likelihood of dilution" standard was favored by famous trademark owners who argued that the purpose of the new law would be thwarted in many cases if plaintiffs were forced to show objective evidence of actual economic injury.

In 2002, the Supreme Court granted certiorari to the Defendants in *Moseley v. V. Secret Catalogue, Inc.*, 535 U.S. 985 (2002), to resolve the Circuit split. The appeal was taken from the Sixth Circuit Court of Appeals, which had applied a "likelihood of dilution" standard in affirming the ruling in favor of Victoria's Secret on summary judgment. *V. Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464, 475 (6th Cir. 2001).

FINDINGS OF THE LOWER COURTS

Victoria's Secret operates retail stores selling women's lingerie, clothing, and accessories across the country. Victoria's Secret offered overwhelming evidence of its famous reputation. Victoria's Secret operates over 750 stores, conducts business over the Internet, and distributes over 400 million copies of its lingerie catalog each year, including 39,000 to consumers in the town where the Moseleys' "Victor's Little Secret" business is located. In 1998 alone, Victoria's Secret spent over \$55 million in advertising. Victoria's Secret was able to provide survey results showing that its VICTORIA'S SECRET mark is the ninth most famous brand name in the apparel industry.

Since February 1998, Defendants Victor and Cathy Moseley have operated a small store in a strip mall in Elizabethtown, Kentucky, where they sell various adult

products, such as men's and women's lingerie, adult videos, sex toys and adult novelties. The Moseleys named their store "VICTOR'S SECRET," and later claimed that they had no knowledge of Victoria's Secret's catalogs or stores until notified by Victoria's Secret lawyers. When Victoria's Secret demanded that the Defendants cease using the Victor's Secret name, the Moseleys changed their store's name to "VICTOR'S LITTLE SECRET." Finding the addition of "little," which appeared in smaller type font than the other words, unsatisfactory, Victoria's Secret sued the Moseleys in federal court alleging, *inter alia*, federal trademark infringement and violation of the Federal Trademark Dilution Act.

The U.S. District Court for the Western District of Kentucky rejected Victoria's Secret's infringement action finding insufficient evidence of a likelihood of consumer confusion (the standard for traditional trademark infringement). However, the district court granted summary judgment to plaintiffs on their dilution claim, holding that: (1) the VICTORIA'S SECRET mark is famous; (2) the Moseleys made commercial use of the VICTORIA'S SECRET mark in commerce; (3) the Moseleys' use of the mark came after the mark became famous; and (4) the Moseleys' use diluted the VICTORIA'S SECRET mark. *V. Secret Catalogue, Inc. v. Moseley*, 2000 U.S. Dist. LEXIS 5215, at *14 (W.D. Ky. Feb. 9, 2000). The district court determined that the Moseleys' use, though limited to central Kentucky, both blurred the distinctive VICTORIA'S SECRET mark and tarnished the distinctive mark in light of Moseleys' sale of "risque" products that may be unsavory to some consumers. Victoria's Secret did not provide consumer survey evidence showing that the mark's ability to distinguish goods had been diminished by any quantifiable degree. Nevertheless, the Sixth Circuit affirmed the lower court's finding that Victoria's Secret had met its burden in proving a likelihood of dilution of its famous mark.

THE SUPREME COURT'S DECISION

In a highly anticipated decision, the U.S. Supreme Court stated that the text of the FTDA requires proof of actual dilution of a famous mark. The Court based its holding on the FTDA's statutory language prohibiting conduct that "causes dilution" of a famous mark, and on the statutory definition of "dilution", both of which do not con-

tain any reference to a "likelihood" standard. The Court's unanimous decision states that proof that consumers merely associate two marks is, in most cases, not enough for a showing of dilution:

At least where marks at issue are not identical, the mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution . . . [as such association] will not necessarily reduce the capacity of the famous mark to identify the goods of its owner.

After determining the proper legal standard to be one of "actual dilution," the Court concluded that Victoria's Secret had provided no evidence that the VICTORIA'S SECRET mark's ability to identify the company's goods had been diminished by the defendants' conduct. In a passing reference, Justice Stevens acknowledged that evidence of actual dilution may be "difficult to obtain," but nevertheless stated that the Court could not dispense with proof of an essential element of a statutory violation.

The Court expressly refuted the need to produce actual loss of sales or profits, a position advocated by the Fourth Circuit Court of Appeals in *Ringling Bros.-Barnum & Bailey Combined Shows, Inc.*, 170 F.3d 449, 453 (4th Cir. 1999). Unfortunately, the Court offered little additional guidance on precisely what types of evidence would suffice to prove actual dilution.

The court also considered the possibility that circumstantial proof of dilution could satisfy the FTDA, remarking:

It may well be, however, that direct evidence of dilution such as consumer surveys will not be necessary if actual dilution can reliably be proved through circumstantial evidence – the obvious case is one where the junior and senior marks are identical.

The type of circumstantial evidence that may qualify as acceptable proof was left for practitioners and the lower courts to determine.

ISSUES LEFT UNRESOLVED

In addition to the standards of proof, the Supreme Court's decision leaves unresolved a number of issues that continue to challenge the courts. First, must a mark be famous nationwide, or is fame in a local area or "niche market" sufficient for dilu-

tion protection? Second, if courts must analyze trademark distinctiveness in addition to fame, must a mark be inherently distinctive, or is distinctiveness acquired through use over time sufficient? Third, what contextual factors, if any, are relevant to determining whether dilution has occurred?

Regarding the sufficiency of fame of a mark, the results have been wildly mixed. One court held that a trademark was famous because it was used and advertised extensively in connection with regional convenience stores for almost ninety years, even though those stores were located in just five northeastern states. *Wawa, Inc. v. Haha*, 1996 U.S. Dist. LEXIS 11494, at *5 (E.D. Pa. Aug. 8, 1996); *see also Times Mirror Magazines, Inc. v. Law Vegas Sports News, L.L.C.*, 212 F.3d 157, 165 (3d Cir. 2000) (finding that a mark famous in a particular industry niche is entitled to protection under the FTDA). Addressing the very same issue, the Second Circuit held that where a trademark owner used a mark in connection with 228 retail stores in twenty-seven states, generating over \$280 million in sales and generating tens of millions of dollars in advertising, it was “improbab[le] that Congress intended to grant such outright exclusivity to marks that are famous in only a small area or segment of the nation.” *TCPIP Holding Co. v. Haar Communications, Inc.*, 244 F.3d 88, 99 (2d Cir. 2001); *cf. Toro Co. v. ToroHead, Inc.*, 61 U.S.P.Q.2d 1164 (TTAB 2001) (finding fame irrelevant “unless somehow the goods or services with which the

allegedly diluting mark is used are in the same market”).

The courts also disagree whether a mark must be inherently distinctive, meaning it is a suggestive, fanciful or arbitrary term, *N.Y. Stock Exch., Inc. v. New York, New York Hotel, L.L.C.*, 293 F.3d 550, 557 (2d Cir. 2002) (requiring that a mark be inherently distinctive to be protected by the FTDA), or whether it can merely have *acquired* distinctiveness through public use. *Times Mirror Magazines, Inc.*, 212 F.3d at 165-68 (finding that secondary meaning is sufficient to establish distinctiveness under the FTDA).

Finally, the appropriate legal test to determine dilution remains unsettled. In 1989, the Second Circuit, applying New York dilution law, set forth six factors for determining dilution: (1) similarity of the marks; (2) similarity of the products covered by the marks; (3) sophistication of consumers; (4) predatory intent; (5) renown of the senior mark; and (6) renown of the junior mark. *Mead Data Center, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1035 (2d Cir. 1989). While some courts apply all six factors, in addition to several others, *see, e.g., Nabisco, Inc.*, 191 F.3d at 216, other courts find that fewer factors are truly applicable to dilution, *Clinique Labs., Inc. v. Dep Corp.*, 945 F. Supp. 547, 562 (S.D.N.Y. 1996) (omitting analysis of predatory intent). For instance, Professor McCarthy gives credence only to factors one and five, finding the others more suited to infringement than to dilution claims. 4 MCCARTHY, *supra*, at § 24:69.

Another commentator suggests that none of the *Mead* factors have a place in dilution analysis; instead, arguing for an approach that simply requires a plaintiff to prove fame and dilution under the FTDA. Xuan-Thao N. Nguyen, *The New Wild West: Measuring and Proving Fame and Dilution Under the Federal Trademark Dilution Act*, 63 ALB. L. REV. 201, 230-31 (1999).

CONCLUSION

In light of the high Court’s recent pronouncement, trademark practitioners are left to explore new means by which to gather and measure evidence showing actual dilution. Though evidence of lost profits will not be required, where such evidence is available, attorneys representing famous trademark owners will surely make every effort to document this seemingly irrefutable proof.

In the majority of cases where evidence of lost hard dollars and cents is unlikely, most often survey experts and marketing psychologists will determine how best to measure the reduction of a famous mark’s capacity to serve as an indicator of source to the relevant consuming public.

Advocates of strong dilution protection may have to seek redress on Capitol Hill, in the form of amending legislation that incorporates the “likelihood of dilution” standard. Such efforts, even if successful, could take some time. In the meantime, the lower courts and practitioners will continue to struggle with the elusive and powerful dilution doctrine. 