

NEWSLETTER

Developments in U.S. and Canadian law
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Victor, Victoria: U.S. Supreme Court on Trademark dilution

For the entire decision, please see
<http://www.supremecourtus.gov/opinions/02pdf/01-1015.pdf>

In its most recent decision on Trademarks, the U.S. Supreme Court has interpreted the Federal Trademark Dilution Act (FTDA) and defined a necessary element of proof a plaintiff must present to get relief for dilution. The unanimous Supreme Court decision for *Moseley Et Al., Db a Victor's Little Secret V. V Secret Catalogue, Inc., Et Al.* was handed down on March 4, 2003, overturning a decision made by the Sixth Circuit United States Court of Appeals. The Supreme Court ruled that according to the FTDA, a plaintiff must demonstrate unambiguous evidence of dilution, such as actual losses of sales or profits, not a mere likelihood.

The case began in 1998, when Victor and Cathy Moseley opened an adult store in Kentucky called "Victor's Secret". An army colonel, offended by the store's wares, sent a complaint to Victoria's Secret, a U.S. woman's lingerie retailer with annual sales exceeding \$1.5 billion. Victoria's Secret's counsel sent a letter to the Moseleys stating that "their choice of the name 'Victor's Secret' for a store selling lingerie was likely to cause confusion with the well-known VICTORIA'S SECRET mark and, in addition, was likely to 'dilute the distinctiveness' of the mark."

The Moseleys accordingly changed the name of their store to

"Victor's Little Secret"; this change, deemed insufficient by Victoria's Secret, led their counsel to file an action before the Federal District Court. The action accused that "[the Moseleys'] conduct was 'likely to blur and erode the distinctiveness' and 'tarnish the reputation' of the VICTORIA'S SECRET trademark."

The District Court, based its logic on the premise that dilution 'corrodes' a trademark by either "blurring its product identification or by damaging positive associations that have attached to it." The court concluded that "Victor's Little Secret" was sufficiently similar to "Victoria's Secret" to cause dilution, and decided that "Victor's Little Secret" has a "tarnishing effect" on the plaintiff's mark. Although the court ruled there was dilution, no blurring was found. The Court of Appeals affirmed this decision.

The Supreme Court approached this case with one question: whether objective proof of actual injury to the economic value of a famous mark (as opposed to a presumption of harm arising from a subjective "likelihood of dilution" standard) is a requisite relief under the Federal Trademark Dilution Act.

The Court began its analysis by examining the FTDA (15 U.S.C. §1125) and its legislative history. This act defines "dilution" as "the lessening of the capacity of a famous mark to identify and distinguish goods or services." The Court noted that the FTDA states that an owner of a famous mark is entitled to injunctive relief against another person's commercial use of a mark or trade

name if that use "causes dilution of the distinctive quality" of the famous mark. 15 U. S. C. §1125(c)(1) (emphasis added)". The Court observed that "the mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution [...] such mental association will not necessarily reduce the capacity of the famous mark to identify the goods of its owner, the statutory requirement for dilution under the FTDA."

The Court concluded that to establish causation of dilution as required by the FTDA, the Plaintiff must bring forth evidence of actual dilution; this can be done through consumer surveys and other means. The Plaintiff must show that another's use of the mark actually caused decreases in sales, deteriorated consumer opinion of the mark, caused other prejudices to the Plaintiff's mark, etc.

In the present case, the Court ruled that "[t]here is a complete absence of evidence of any lessening of the VICTORIA'S SECRET mark's capacity to identify and distinguish goods or services sold in Victoria's Secret stores or advertised in its catalogs." It is important to note that this decision does not preclude Victoria's Secret from seeking damages from the Moseleys, as long as they produce actual evidence that "Victor's Little Secret" lessens their mark.

U.S. Patent and Trademark Office's Financial Dilemma

"The reliability of patents and trademark registrations is increasingly being called into question. Not only do invalid patents and trademark registrations put at risk the investments of their owners who commercialize the protected products and services, but they also cast a cloud over the legitimate business activities of the competitors of such right holders."

Excerpt from the letter of October 24, 2002, to The Honorable Mitchell E. Daniels, Jr., the Director of the Office of Management and Budget from the Biotechnology Industry Organization (BIO)

For the past year, the USPTO has been embroiled in a bitter custody battle. On one side, Congress and the Department of the Treasury; on the other side, the PTO user community. The issue? Money. The Patent and Trademark Office is one of the few government institutions that actually generates a profit through user fees. In the last 10 years, the Treasury has diverted nearly one billion dollars from the PTO's coffers to other U.S. government departments who consistently spend more than they earn (e.g. FBI, NSA, or NASA).

The diversion of funds is hindering the USPTO from meeting the growing demand for prosecution of patent and trademark applications, and the pendency (the time it takes to obtain a patent) grows every year. Today, the pendency is from two to three years, and up to six years for some critical technologies

such as software. The main cause of pendency is a serious shortage of qualified Examiners. As illustrated by the quote above, such long delays present serious prejudices to current and potential IP owners.

In June 2002, a proposed fee bill was presented the PTO's director, James Rogan. This fee bill proposed an overhaul of patent and trademark user fees (raising some fees to as much as \$16,000), as well as operational changes in the PTO. This bill was criticized by a syndicate of IP professionals, mainly comprised of five user groups: American Bar Association (ABA), American Intellectual Property Law Association (AIPLA), Biotechnology Industry Organization (BIO), Intellectual Property Owners (IPO) and the International Trademark Association (INTA). The user groups focused on the fact that the proposed fee bill would generate substantially more revenue than what was needed to operate the PTO efficiently. The groups, testifying at the hearing by the House IP Subcommittee on the Rogan proposal, argued that in anticipation of diversion of funds of \$162 million in the first year alone, the PTO went overboard with its increases. As a result, the higher fees would deter all but the very wealthy inventors from filing for a patent. The user groups also disapproved operational changes such as allowing applicants to provide their own searches done through certified searching companies.

Although the groups were successful in shooting down the PTO's proposed fee bill, Congress has clearly refused to concede to the argument that all fees earned by the PTO belong to the PTO. It did state that the PTO's access to the funds is conditional to the PTO working out a multi-year strategic plan to

improve the overall quality of the PTO's services.

This stipulation has motivated the the five user groups to arrive at such a strategic plan. They agreed that the core principles in any fee revision plan should be (1) improvement of quality of examination of patents and trademarks, (2) implementation of e-Government to handle the future workload, and (3) reduce the patent and trademark pendency. The groups unanimously denounced the diversion of funds as a 'tax on innovation', and will not support any proposed fee increase for the sole purpose of being diverted away from the PTO or as a punitive/behaviour modification technique.

Many different ideas have been floated about the groups, including a hike in patent maintenance fees to approach those of Europe, as well as substantial training periods for new Examiners. At present, all proposals generated by the user groups will not be submitted to the present 107th Congress due to the lack of time before the 2004 elections.

Whatever may come, this is certainly a hotly-disputed issue, and one that will cause much more ink to run in the coming future.